ECONOMIC REVIEW AND OUTLOOK
2018 - 2021

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EXECUTIVE SUMMARY

The economy of Eswatini has experienced a difficult year in 2018 with major economic pillars facing challenges in the year. Domestically, Government cash-flow challenges have reduced demand for goods and services. The severe fiscal challenges left the Government with few options other than fiscal consolidation in order to bring the situation under control. On the external side, the poor performance of major trading partners, in particular the Republic of South Africa (RSA), distressed Eswatini's export-focused manufacturing sector. Meanwhile, several subsectors within agriculture and agro-processing were still reeling from the effects of the drought. The domestic economy is still faced with challenges entering into 2019 and, although higher growth is expected than in 2018 with some of the pressures easing, international uncertainties have heightened. The medium-term outlook will depend significantly on the government's ability to effectively implement consolidation reforms and, in coordination with the private sector, bolster the country against potential international risks.

Global economic growth reached a peak in 2017 and has since decelerated, with growth expected to continue to moderate in 2019 and 2020, according to the January 2018 IMF's World Economic Outlook. Risks to the global economy have grown substantially, given rising trade tensions between the United States of America (USA) and China, political uncertainty, volatile commodity prices and weakening sentiment in global financial markets. Growth across major trading partners has been particularly volatile. Growth in the Euro-zone has been hindered by the Brexit uncertainty and other political events, whilst fiscal stimulus policies temporarily boosted growth in the US. In Asia, growth in China and Japan decelerated significantly particularly due to rising global trade tensions, while growth in India is quickly rising. The growth of the Sub-Saharan African region is recuperating, although the increasing number of countries in debt-distress is limiting the region's potential growth. Most importantly for Eswatini, SA experienced a technical recession in the first half of 2018, impacted primarily by drought effects and a decline in the mining sector due to rising input costs. The growth outlook for RSA is uncertain. The outlook will largely depend on the implementation success of government's structural reforms.

Domestic economic growth was flat in 2018, rising by just 0.6 percent compared to a growth of 1.9 percent in 2017. The ongoing government's cash flow challenges resulting in the accumulation of domestic arrears and fiscal consolidation measures have become unavoidable, manifested through cuts in both recurrent and capital expenditure. Growth in critical sectors, such as construction and wholesale & retail have been particularly impacted by these events. Meanwhile, external demand conditions deteriorated, with weak economic developments in RSA and other events, including a ban on Eswatini beef exports to the European Free Trade Association (EFTA) region. The weak external demand severely

hampered mainly, the export-oriented manufacturing subsectors of the domestic economy. This resulted in Eswatini experiencing two consecutive quarterly merchandise trade deficits for the first time in a number of years.

Nevertheless, subsiding inflationary pressures, with food and communication prices moderating significantly in 2018 slightly compensated for the negative demand-side developments. Correspondingly, this allowed for a more accommodative monetary policy stance that supported a growth in credit extension to businesses. The supply-side developments bolstered economic growth in 2018, with agriculture, agro-processing, electricity and water supply subsectors experiencing a full recovery from the drought. The sectors also benefited from the returns of implemented investments and continued expansions, such as investments under the Lower Usutu Smallholder Irrigation Project (LUSIP).

Domestic growth in the short to medium-term is expected to remain passive, although positive. The fiscal sector is expected to remain under-pressure in the short-term, causing further contractions in the construction and wholesale & retail sectors. Medium-term growth will depend largely on government's ability to stabilize the fiscal situation and to continue clearing arrears, while ensuring that reserves are sustained above the internationally recommended level of three months of import cover to mitigate the impact of potential shocks. Manufacturing and supply-side developments are expected to contribute significantly to growth. The agriculture sector is expected to be boosted by continued supply-side projects and expansions, as well as the replenishing of livestock. Exports are anticipated to grow in line with an anticipated improvement situation in SA's economy, coupled with the re-admittance into African Growth & Opportunity Act (AGOA) and greater utilization of other trade deals. Nevertheless, global and regional risks are mounting and trade-tensions remain high, creating uncertainty in these projections.

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1. INTRODUCTION

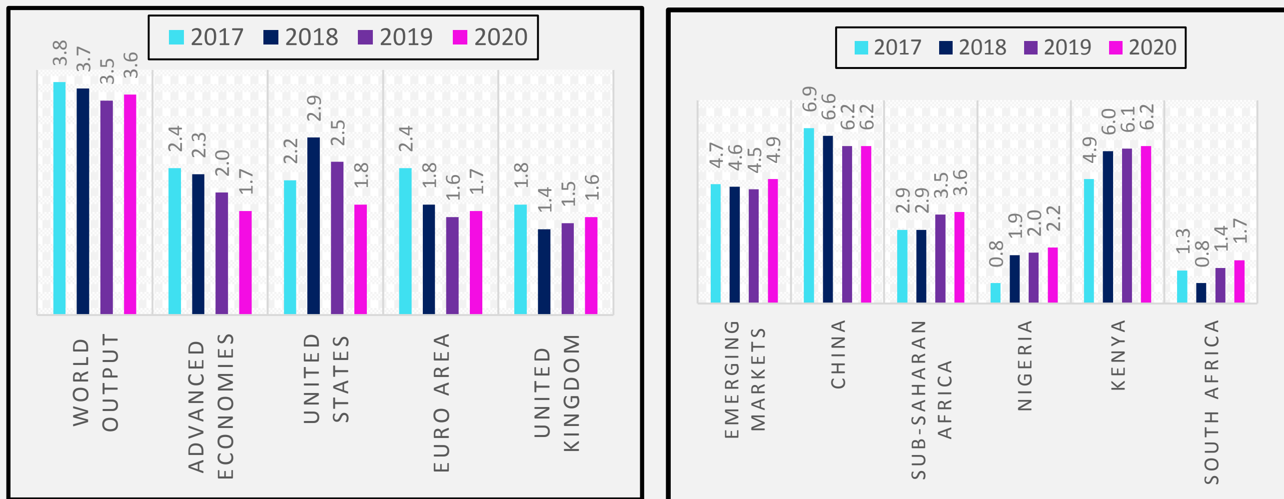
The Economic Review and Outlook highlights the economic developments in the global, regional and domestic space in the past period (2018) and the medium term (2019 – 2021) outlook. It provides key statistics and economic information to assist policy makers and economic agents to make informed-evidence based policies and business decisions. Key highlights of the report indicate that global growth decelerated in 2018 and the outlook is clouded by uncertainty about the policy trajectory of some of the world's largest economies and the consequences for world trade. Mounting pressures on the global trading system pose a serious threat to small, open economies such as Eswatini. Growth in the region, on the other hand, is seen to be picking up although there are threats of increasing debt in a number of countries. Activity in the domestic economy slowed in 2018 fueled by fiscal challenges and the weak external demand from key export markets. Growth is expected to increase gradually in the medium term, mainly driven by supply-side developments.

The rest of the report is structured as follows: Section 2 provides an economic review and outlook of international developments and assessment of its implication on the domestic economy. Section 3 reviews economic developments and prospects in the domestic economy; assessing the four pillars namely real, monetary, external and fiscal sectors.

2. INTERNATIONAL ECONOMIC DEVELOPMENTS

Global economic growth decelerated to 3.7 percent in 2018 from 3.8 percent recorded in 2017. The slowdown was more prominent in advanced economies, while emerging and developing markets were primarily being weighed down by weaker growth in China. Furthermore, economic expansion was more varied across countries and peaked in some of the major economies, particularly across Eswatini's major trading partners. Growth is forecasted to remain flaccid in the medium term, 2019 and 2020; due to increasing global risks namely, rising trade tensions, political uncertainty, volatile commodity prices and weakening sentiment in global financial markets.

Figure 1: Global GDP growth estimates (2017-2018) & projections (2019-2020) (%)



Source: World Economic Outlook, Jan. 2019

North America: The USA led growth among the major advanced economies in 2018, with a growth rate of 2.9 percent. This was driven largely by fiscal stimulus policies, boosting consumer spending in particular. Nevertheless, the forecasted growth is expected to be more subdued as a result of trade tensions with China, a government shutdown, unwinding of fiscal stimulus and tightening of monetary policy in light of increasing inflationary pressures.

Developments in the USA are imperative for Eswatini businesses, as the largest economy in the world and can affect global output and trade, but because it is an important source of the country's imported machinery goods, medical products and ingrediants used in several manufacturing industries in the country. In the medium-term, there will be opportunities to boost exports to the US given the reinstatement of Eswatini into the AGOA agreement.

Europe: Growth in the Euro Area has stagnated, weighed down particularly by continued Brexit uncertainty, weakened industrial production in Germany following new fuel emission standards, protests and industrial action in France, and growing sovereign and financial concerns in Italy. These pressures are expected to continue to slow down growth in 2019 and 2020, with particular concerns around how the UK will leave the European Union (EU). European countries currently account for over 4.5 percent of Eswatini's total trade, boosted by the Economic Partnership Agreement (EPA) between the EU and the Southern African Development Community (SADC). The UK is one of Eswatini's largest trading partners through the EFTA agreements; hence, trade agreements created between Southern African Customs Union (SACU) and the UK after Brexit will determine export to these areas.

Asia: The emerging economies in Asia continue to display the highest regional growth in the world, growing as a region at 6.5 percent in 2018. Nevertheless, growth in the region has declined slightly, weighed down by the negative effects of the trade tensions between the USA and China. Financial regulatory tightening and environmental reforms are further slowing growth in China, with forecasted growth at some of the lowest rates it has experienced in decades. Growth in India, on the other hand, is forecasted to accelerate up to 7.5 percent in the medium-term after having moved past the transitory period of previously implemented financial and fiscal reforms. Despite having no trading agreements with these two countries, China and India are two of the top three import sources for Eswatini.

Growth in Japan fell to 0.9 percent in 2018 following the effects of several natural disasters and the impact of trade frictions. In the medium-term, Japan's growth is expected to continue to stagnate, particularly when tax hikes are implemented in 2020. On the other hand, Taiwan managed to maintain a 2.7 percent growth despite the spillover effects from trade tensions. Continued trade wars are expected to slow down Taiwan's growth. Outlook for trade between Eswatini and Taiwan is expected to improve bolstered by the signing of the Economic Cooperation Agreement (ECA) in 2018, which is expected to remove tariffs on 153 export items thus encouraging increased exports.

Sub-Saharan Africa: The growth of the Sub-Saharan African region is recovering, although the increasing number of countries in debt-distress (e.g. Mozambique and Zimbabwe) is limiting the region's growth. A rise in oil-prices allowed the oil-exporting countries like Nigeria breathing room to recover in early 2018, although oil-prices became increasingly volatile towards the end. Kenya and Tanzania in Eastern Africa have maintained a strong growth at approximately 6 percent in 2018, boosted by favorable weather conditions and a strong macroeconomic environment. Growth is expected to accelerate in these two countries following these positive developments, together with planned increased public

infrastructure spending. Nigeria, Kenya and Tanzania are consistently within Eswatini's top five export destinations thus remain an important export market for the domestic economy.

SACU Region: Growth in RSA is estimated to have declined from 1.3 percent to 0.8 percent in 2018, due to slow economic activity fueled by the post-drought effects and deteriorating mining activity. As a result, the first half of the year reflected two consecutive contractions. However, in the third quarter, positive recoveries in RSA manufacturing, agricultural and tertiary sectors are assumed to have prevented an overall contraction in 2018. The outlook for RSA is uncertain and, although growth is expected to pick up gradually, will largely depend on the success of government structural reforms that are required to bolster investor confidence. External developments will also play a critical role, in particular exchange rate developments, as the appreciation of the Rand relative to major trading partners could reduce demand for exports. Moreover, weakened commodity prices could exacerbate the pressure on the RSA mining sector. Positive supply-side developments in the mining sectors of Namibia and Botswana, on the other hand, are expected to stimulate growth for the two countries in the medium-term. Eswatini is heavily trade dependent on the SACU region, particularly on RSA, with over 70 percent of exports destined to the region and over 75 percent of imports sourced from the region.

3. DOMESTIC ECONOMIC DEVELOPMENTS

3.1 ECONOMIC GROWTH

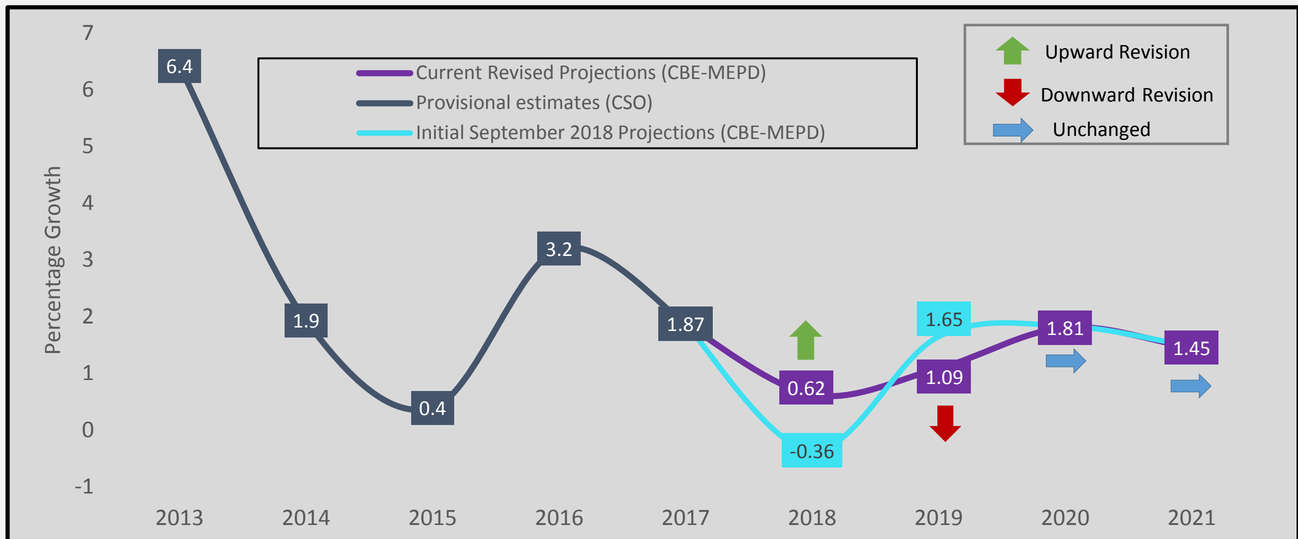
Domestic economic activity, as measured by real Gross Domestic Product (GDP)[1], remained weak in 2018. However, it has shown some improvements from the previous projections conducted in August 2018. The most recent January 2019 GDP projections[2] indicate that real GDP is estimated to have grown by 0.6 percent compared to a growth of 1.9 percent in 2017, an upward revision from the -0.4 percent projected in August 2018. The improvements, relative to the earlier projections, mainly resulted from a better performance in the agriculture and agro-processing subsectors, which benefitted from higher than expected increase in sugar production. In addition, the 'Wholesale and Retail' subsector depicted a modest recovery in the second half of 2018, even though real disposable incomes remained depressed, due to the partial clearing of government's arrears and increased spending on national events, e.g. elections, which boosted the demand for goods and services. Moderating inflationary pressures also supported the performance of the sector.

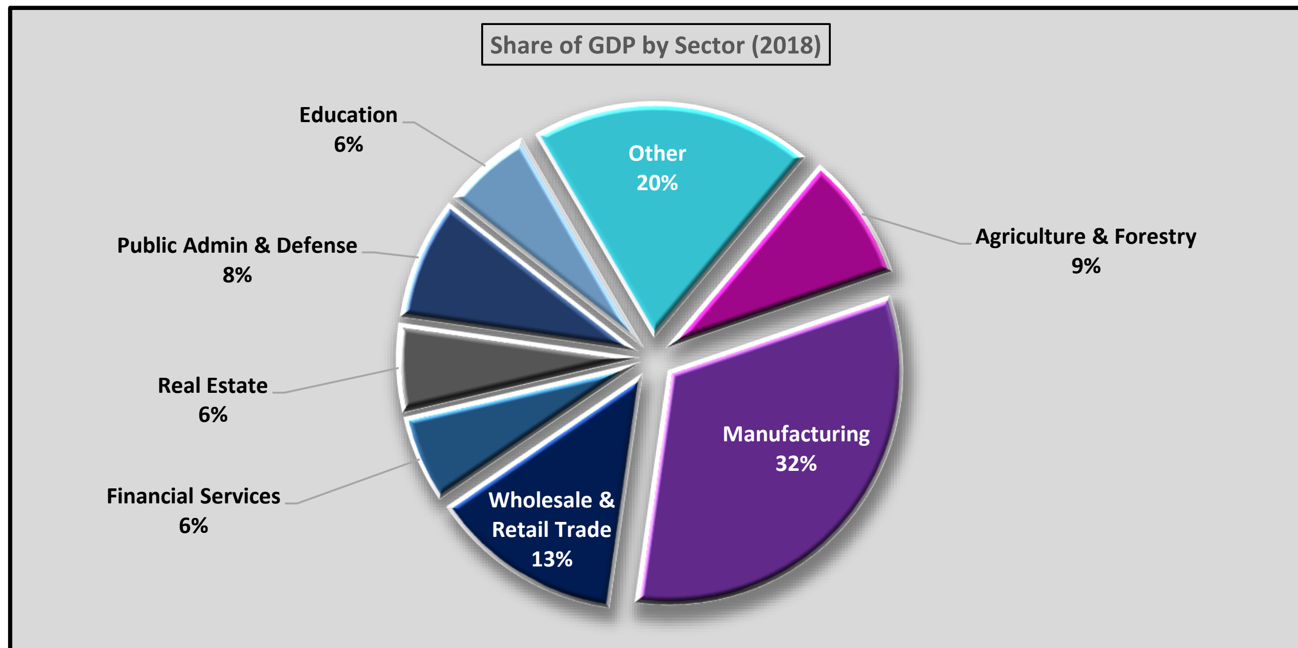
Economic growth is expected to remain modest in the short to medium term. The suppressed growth outlook is largely due to the lagged effects of the fiscal challenges that have necessitated stronger fiscal consolidation measures, weighing heavily on domestic demand. In addition, RSA continues to experience protracted economic weakness mainly as a result of domestic constraints, and this reduces external demand for exports. Growth will thus be driven by supply side developments attributable to increased agriculture production, which will be boosted by continued expansions, e.g. LUSIP 2 projects. Furthermore, the manufacturing activity is expected to benefit from new trade agreements and the regaining of the AGOA market, although global risk factors remain elevated and will pose as a major negative risk to the outlook. On the positive side, Government's stance of putting in place a recovery strategy and reform packages could cause an upturn in investor sentiment and business confidence.

[1] Real GDP, as opposed to Nominal GDP, removes the effect of inflation in order to view what the growth of the economy has been in terms of actual production. This is done by setting a base year (2011 in our case), and using that base year's prices for the whole series.

[2] GDP projections are done by the Macro Forecasting Team (Macro unit in the Ministry of Economic Planning and Development and the Real sector unit of the Central Bank of Eswatini) and published in not later than end September and review published in not later than end January.

Figure 2: Real GDP Projections (2018 - 2021) and share of GDP by sector (2018)





Source: Central Statistics Office, Macro-forecasting Team

3.1 1. Primary Sector developments

Primary sector activity rebounded in 2018. Following the suppressed activity since 2015, largely resulting from drought effects, the sector recovered in 2018 with an estimated growth of 5.9 percent compared to -4.2 percent recorded in 2017. The sector benefited from increased production in the growing of crops and poultry, while cattle production is still on the path of recovery. Activity under the forestry and mining subsectors, on the other hand, declined during the period. Anticipated expansions, particularly under

crops production, will support supply side developments and boost primary sector growth in the medium term.

Figure 3: Growing of crops output

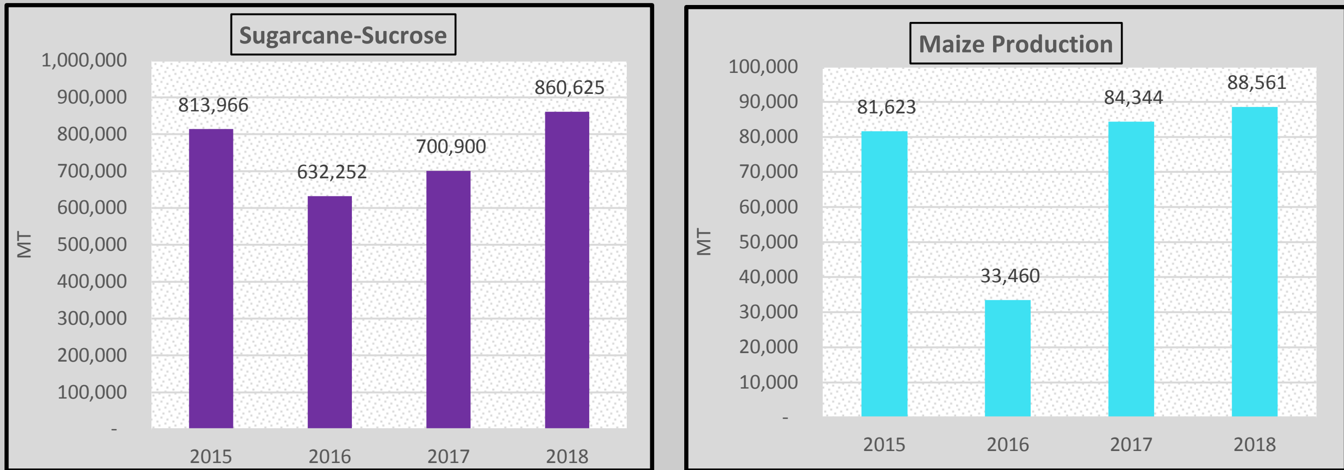
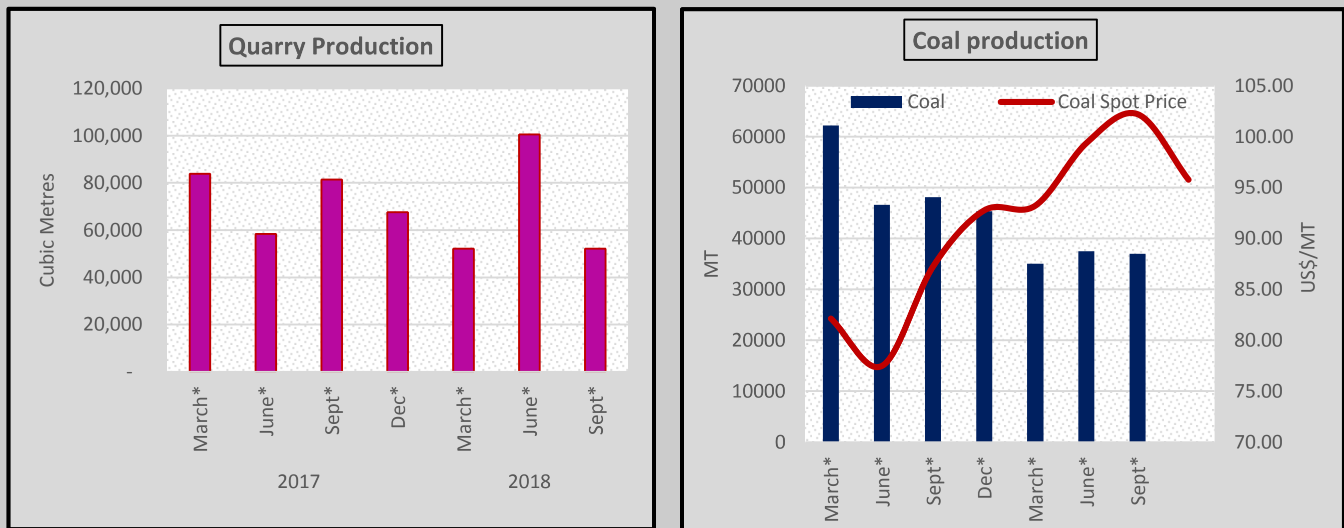


Figure 4: Mining production (Quarry & Coal)



Source: Macro-forecasting Team, Central Bank of Eswatini & Energy Market Price

Growing of Crops: Activity in the agriculture industry grew by 6 percent, contributing 0.49 percent to overall GDP growth during the period. This was a recovery from the 4.4 percent contraction experienced in 2017. The sector was boosted by the improvements in the growing of crops under Individual Tenure Farms (ITF). ITF benefitted from the increased production of sugarcane during the period owing largely to the continued expansions under the Lower Usuthu Smallholder Irrigation Projects (LUSIP) and favorable weather conditions during the year. Production was marked by higher yields with sucrose

levels per cane reaching 14 percent, a performance last observed in 2011 and above a historical average of 13.7 percent. Growing of crops under Swazi Nation Land (SNL) also recorded an impressive performance, driven by increased maize and cotton production during the period with better rainfall received during the season.

In the medium term, the trends for the sector are expected to remain positive, driven by continued irrigation projects, expansions of crop hectarage and developments in new, high-value crops. In particularly, there are several projects in the pipeline, among which include the food security programme and LUSIP 2 extension. With successful implementation, these are anticipated to increase agriculture output in the medium term. However, a negative threat to the outlook is the erratic weather conditions due to climate change that are likely to affect the sector. The demand-side conditions are also positive, given space to substitute Maize imports with local production and with sugar exports to be supported by rising world sugar prices, along with a relatively weaker exchange rate.

Animal Production: The rearing of animals, mainly beef cattle and poultry, recovered in 2018 with an estimated growth of 0.3 percent compared to a negative growth of 15.6 percent recorded in 2017. The favorable weather conditions during the period supported the restocking of livestock by farmers that were severely depleted by drought induced culling in 2016. Growth for the medium term is projected to be 7.5 percent, 6.9 percent and 1.2 percent in 2019, 2020 and 2021, respectively. The continued replenishing of stock and the recovery of the key export market (EFTA) for beef processing will increase demand for beef cattle.. Increased poultry quotas to RSA are driving substantial growth in poultry exports and key players are expanding operations to meet the increased demand. Several positive supply-side developments will also boost pig and dairy output.

Forestry: Forestry activity remained subdued in the period under review. The subsector contracted by 4.1 percent, moderating from an 11 percent decline observed in 2017. Weak external demand in the RSA market spurred by the slow performance of the SA mining sector, coupled with the planned consolidation drive in the industry (i.e. no new planned investments) and forest fires, in 2018, are some of the factors that contributed to the poor performance of the sub-sector. Performance for the sector will remain modest in the medium term growing by an average of 0.5 percent with no anticipated new investments.

Mining: Activity in the mining and quarrying industry declined slightly in 2018, by 0.8 percent. The poor performance of the sector is attributable to a 30 percent decline in coal production, which suffered from geological constraints, together with a 15 percent decline in quarry production due to slowing construction activity, in particular slow implementation of road construction. Moreover, the closure of

the clay mining company led to reduction in production of the commodity during the period. Mining activity will recover in the medium term, growing by 4.4 percent, 8.4 percent and 5.7 percent in 2019, 2020 and 2021, respectively, with the prospects for the opening and full operationalization of new mining activity.

3.1.2 Secondary Sector developments

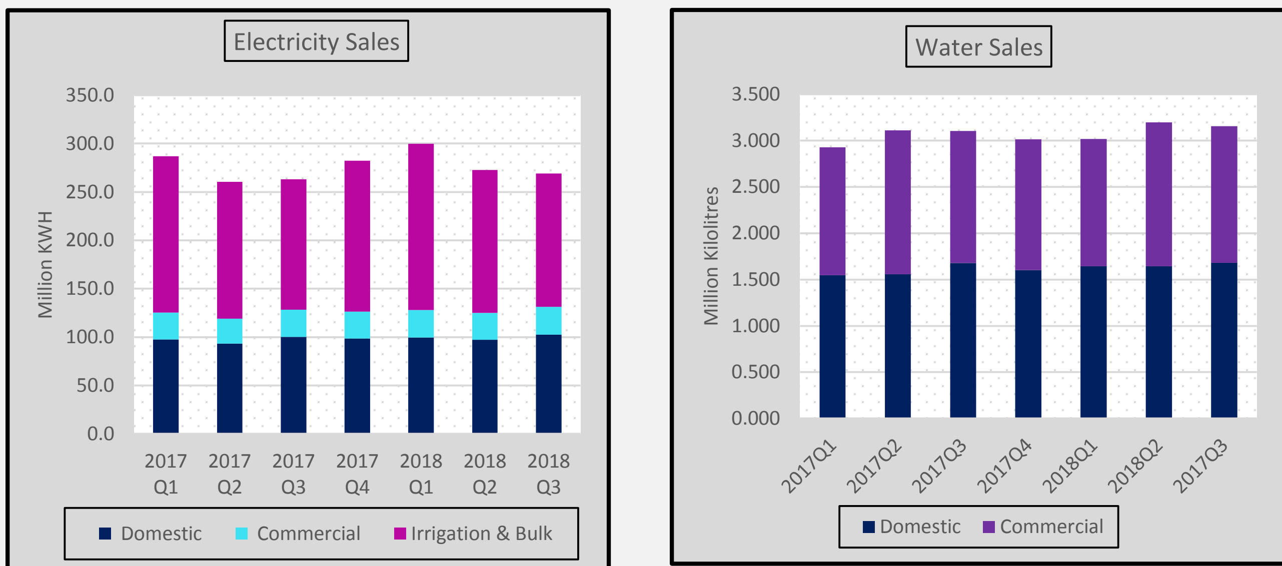
Activity in the secondary sector was stagnant in 2018 relative to 3.1 percent growth in 2017, on account of subdued manufacturing and construction related activity. The manufacturing sector struggled due to weak external demand, particularly surrounding RSA developments whilst government fiscal challenges weighed down on construction activity.

Table 1: Manufacturing performance (annual % change)

Sub-sector	2016	2017	2018	2019	2020	2021
Manufacture of Food Products	(8.65)	(0.01)	9.33	1.8	3.6	3.5
of which Sugar	(15.72)	10.93	13.65	(1.1)	2.0	2.5
Manufacture of Beverages	3.03	4.07	(0.02)	2.5	0.6	1.2
Manufacture of Textiles & Wearing Apparel	7.51	28.69	(13.13)	13.9	19.0	5.8
Manufacture of wood and wood products	21.20	(6.64)	2.32	2.7	1.9	1.9
Other manufacturing	8.83	2.35	(3.99)	(1.1)	0.8	1.7

Source: Central Statistics Office & Macro Forecasting Team

Figure 5: Utilities performance



Sources: Central Bank of Eswatini

Manufacturing: Growth in the manufacturing industry slowed substantially in 2018, estimated at 0.1 percent compared to 5.4 percent in 2017, due to weak external demand, particularly in the RSA market. Manufacturing of beverages declined by 0.02 percent compared to a growth of 4.1 percent recorded in 2017 attributable to reduced demand and other factors, such as the introduction of the sugar tax in RSA. Performance of industries under textile and wearing apparel were down during the period, declining by 13 percent, with some companies closing down while others scaled down production. However, the re-admission of the country to the AGOA market boosted export volumes, offsetting the loss in the textile industry.

On the other hand, the manufacturing of food and sugar processing in particular performed remarkably well during the period. This was largely due to the continued recovery and expansions on the supply side of agriculture, predominantly sugar. Sales volumes for sugar were up by 50 percent during the period, reaching 800,000 tonnes. The subsector also benefited increased poultry export quotas to RSA. Overall, the processing of food products grew by 9.3 percent during the period.

Manufacturing activity is expected to recover in the medium term, with growth supported by expansions in some industries and recovery of some sectors due to the full utilization of regained markets, such AGOA and EFTA, and a moderate recovery of the RSA economy. There are also prospects for markets benefiting from signed trade agreements between the country and Taiwan that removed tarrifs on 153 products, including beef, timber, natural honey, textiles, sugar and a number of vegetables and fruits.Growth is expected at 3.3 percent in 2019, 3.4 percent in 2020 and 2.3 percent in 2021.

Construction: Construction related activities remained inhibited during the period under-review. Activity for the sector contracted by 2.8 percent, compared to a higher contraction of about 10 percent in 2017, on account of slow implementation of a number of capital projects. Government capital expenditure was cut by E500 million during the period owing to the ongoing fiscal challenges. However, activity in the private sector remained positive, although a number of projects had reached peak or near completion by the year-end. Activity in the construction industry in the short to medium-term is expected to remain stifled in light of slow implementation in government projects and few proposed private sector projects to make up the difference. Poor performance of this sector has serious implications on job creation given its high multiplier effect on employment.

Utilities: Water supply and electricity output grew in 2018, benefitting from the favorable rains that kept dams at acceptable water levels. Moreover, continued expansions under LUSIP projects increased the demand for electricity generation during the period. In the medium-term, trends for the sector will remain positive premised on the release of an Independent Power Producer (IPP) Policy by the Eswatini

Energy Regulatory Authority that create the enviornemnt for greater expansions and investment by IPPs for electricity generation.

3.1.3 Tertiary Sector developments

The tertiary sector is estimated to have grown by 0.2 percent in 2018, compared to a 2.0 percent increase in 2017. Previously anticipated lower activity in wholesale and retail trade was counteracted by increased domestic demand in the second half of the year. Demand was boosted primarily by a more accommodative monetary policy setting that allowed for more borrowing by the private sector. The contained inflationary pressures also underpinned better performance for the sector. Other services, such as tourism, government, financial sector and transportation, were on a downward trend during the period owing to the fiscal challenges, depressed real wages and weak external trade.

Figure 6: Tertiary Sector Developments

Source: Eswatini Revenue Authority & Eswatini Tourism Authority

Wholesale & Retail Trade: The subsector is estimated to have grown by 1.1 percent in 2018, compared to a 3.4 percent decline in 2017. There was a significant recovery in the second half of the year with imports of final goods expanding by 5 percent. This was mainly driven by higher domestic demand due to some national events, such as elections, and the clearing of some of government's arrears during the period, which is expected to have improved supplier confidence. Headline inflation was also on a downward trend, boosting consumer demand. Growth in the Wholesale and retail sector is not expected to remain positive, as the continued decline in real wages, combined with curtailed spending by

government, will continue to affect domestic demand. The sector is expected to contract by an average of 2.8 percent in the medium term.

Public Administration & Defense: Government's performance remained subdued due to the cash-flow challenges resulting in forced fiscal consolidation measures, such as a wage-and-hiring freeze and others to curtail spending. Activity in this sector is estimated to have contracted by 1.7 percent in 2018 compared to a growth 0.7 percent recorded in 2017. The fiscal consolidation will continue to have an impact on the medium term growth of the sector, resulting in an expected stagnant growth in 2019 before the subsector gradually recovers by 1 percent and 2 percent in 2020 and 2021, respectively.

Financial Sector: Activity in the financial sector declined by 0.6 percent during the period. A decline in exports during the year greatly reduced the non-interest income of banks from exchange fees. Furthermore, non-performing loans were on the rise as a result of fiscal challenges placing pressure on businesses. Nevertheless, credit extension to private sector businesses were up during the period, bolstering interest income and preventing a further contraction of the financial sector. Increased use of Financial Technology (FinTech) and an expansion of other service activities is expected to improve non-interest income in the medium-term, resulting in an envisaged 3 percent average growth.

Tourism: Performance of the tourism related sectors slowed in 2018, contracting by 8.4 percent, as bed nights sold declined by 15 percent. Bed nights sold is linked to conferencing, which is currently dominated by government departments and Non-Governmental Organizations (NGOs). The ongoing fiscal issues have forced the rationalization of public expenditure and thus negatively affected conferencing activity. In the same vein, international visitor arrivals were down by 7.4 percent (year-on-year) in November 2018, owing to weak arrivals from key sources, including Mozambique. The tourism sector is expected to recover gradually in the medium-term; however, weak government activity will offset higher growth.

Transportation: Performance in the transport sector declined by 2 percent during the period on account of slowing activity in the transportation of goods via railway and air. Additionally, there was a significant contraction in Postal and Courier activities as volumes for parcels declined. A gradual recovery is anticipated for the sector in the medium-term, supported by improved performance in the manufacturing and agriculture sectors as well as a recovery in external demand .

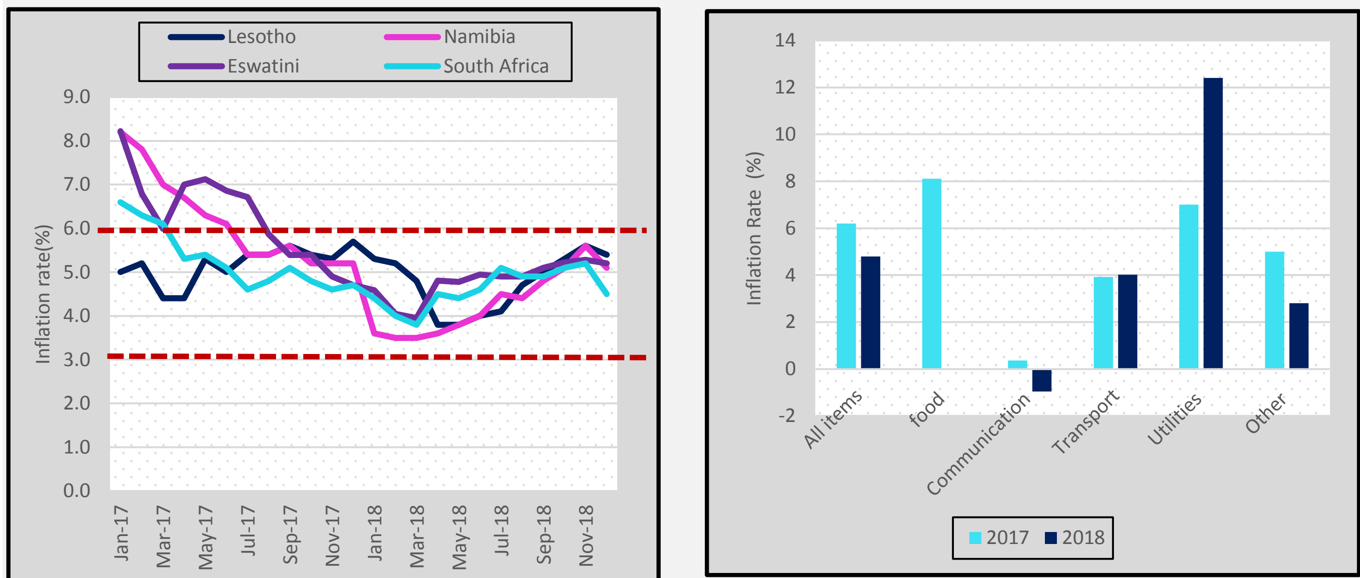
Information & Communications and Other Sectors: Information and communication services continued to benefit from the reduction of wholesale prices for data, minutes and the liberalization of the sector. This liberalization has brought about innovation and introduction of more affordable packages for consumers, particularly for data. Other services, such real estate and community related services

ascribed moderate growth during the period, in line with population growth. The information and telecommunication sector will remain positive in the medium term, supported by a continued reduction in prices and competition in the sector. Real estate is expected to dip in 2019, with the oversupply in rental space as more entities build their own offices, before recovering in the outer years. Professional, Scientific and Technical Activities are expected to grow in line with primary and tertiary sector growth, while population growth will continue to boost other service sectors.

3.2 PRICE DEVELOPMENTS

In 2018, inflation continued to stabilize following the recovery from the drought in 2017. Headline inflation, on average, deflated by 1.4 percentage points, from 6.2 percent in 2017 to 4.8 percent in 2018. This was mainly driven by a decline in food and communications inflation, which both had subsided during this period. The sustained recovery, subsequent to favorable weather conditions, normalized food prices, with vegetables, maize and other cereal products experiencing substantial deflation. The decline in communications inflation was driven by a regulatory driven reduction in wholesale data costs as well as the introduction of a new player in the mobile space, placing increased competition in the industry.

Figure 7: Inflation rate in the CMA countries (2017-2018) and Inflation categories



Source: Central Statistics Office

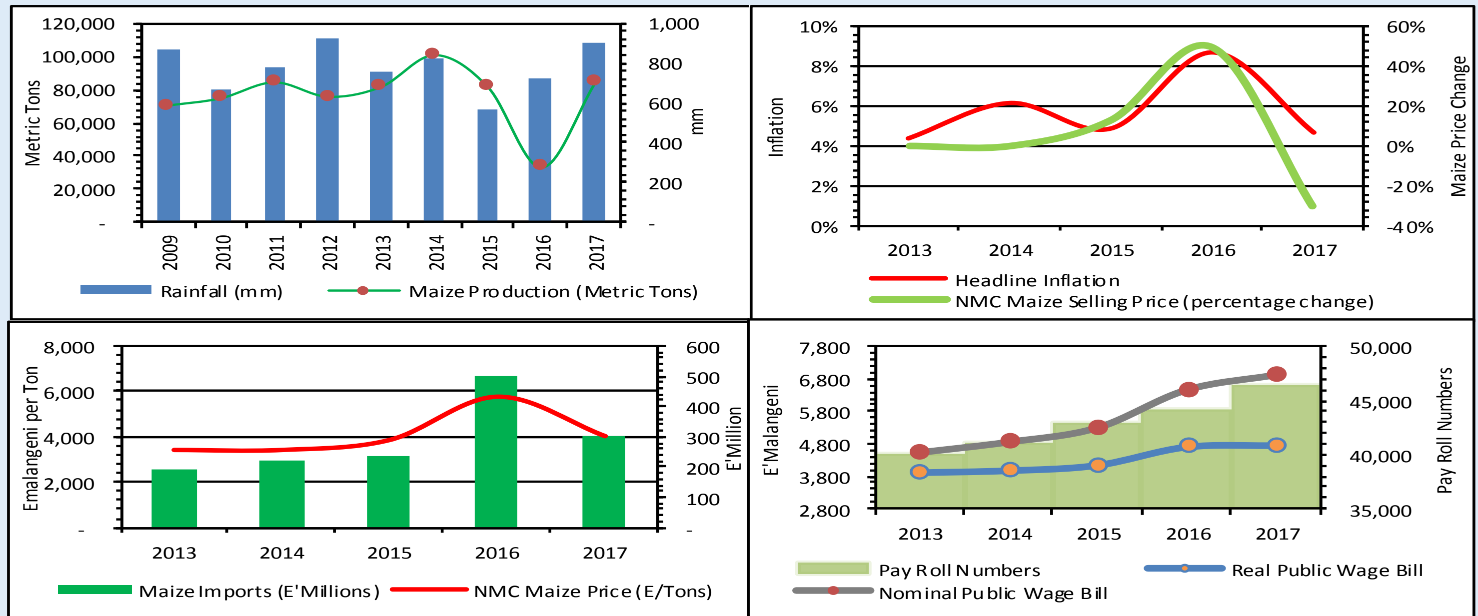
The deflation of food and communication prices was slightly counterbalanced by a significant increase in the prices of housing and utilities, which surged by 5.4 percentage points to 12.4 percent on average

in 2018. This was driven by increasing in electricity tariffs early in the year and annual rental price increases. Global oil prices increased by 20 percent in Q3 of 2018. However, it was not matched by increases in transport prices, which remained moderate. Apart from Eswatini, inflation also stabilized in the other countries within the Common Monetary Area (CMA) in 2017 and 2018. This can be seen in the similar inflation trends, which moved within the targeted (3-6 percent) threshold in the period under review.

According to the Central Bank of Eswatini (CBE)'s inflation forecasts, inflation is expected to rise from 4.8 percent in 2018 to 5.9 percent in 2019. The forecast assumes moderating oil prices due to oversupply in the global market, moderate appreciation of the Lilangeni as a result of threats emanating from the ongoing trade uncertainty as well as policy uncertainty emanating from the proposed land reform in RSA. The rate for the year 2020 is forecasted to be 6.3 percent subject to developments in oil prices and the exchange rate.

Information Box 1: The Real Cost of Drought – Food Security and Household Income

According to the Swaziland Household Income and Expenditure Survey (SHIES) 2009/10, 31 percent of the household consumer basket is food consumption. A major component of food consumption is cereal, in particular maize, which is a staple food. Maize production largely consists of subsistence farming which is sold to both the formal and informal market, and unlike sugar cane (Eswatini's most profitable cash crop) maize is mainly rain-fed and not irrigated. National consumption requirement for white maize is estimated at 132,780 MT per annum. Domestically, maize production ranges between 74,000 MT and 100,000 MT, the balance is imported from South Africa to meet national consumption.



As a strategy to promote maize production, in 2014 government launched an Input Subsidy Program worth E300, million financed through a loan from the Export-Import Bank (EXIM) of India. This program provided seeds, fertilizer, lime and tractor services at half the cost to 21,500-targeted farmers. In 2014, maize production increased by 23 percent from 81,934 MT to 101,041 MT and returned to normal production levels of 81,623 MT in 2015. In 2016, the last year of disbursement of the loan, maize farmers incurred significant losses and production fell to 33,460 MT after the El Nino drought experienced during the 2015/16 planting season.

Maize prices per tonne went up by 50 percent to E5,722 up from E3,816 in 2015. Consequently, food inflation spiked from 5 percent in 2015 to 19 percent in 2016. Headline inflation rose from 5 percent recorded at the end of 2015 to 9 percent at the end of 2016. The total value of food imports in 2016 also increased to E497 million up from E238 million in 2015. This, more than two-fold increase was attributed to both price and volume increase in imports of maize and other food products to meet domestic demand. Maize millers' input costs increased significantly while sale volumes and margins fell in the period as households imported relatively cheaper maize meal from the Republic of South Africa.

Public service employment on average is estimated to account for 15 percent of Eswatini's total employment. Using the public wage bill as a proxy for household income, we may conclude that income during the drought period was eroded by high inflation. There was a widening gap between nominal and real wages observed in 2016, despite the salary review implemented that increased public worker's pay scales. Furthermore, increasing headline inflation expectations are a cost to companies as industries' often use this as a yardstick for annual wage adjustments. Higher inflation expectations increase the cost of labour. An increase in the cost of labour (driven by the cost of living) that is disconnected from labour productivity is a potential source of strained industrial relations and a risk to Eswatini's industry competitiveness.

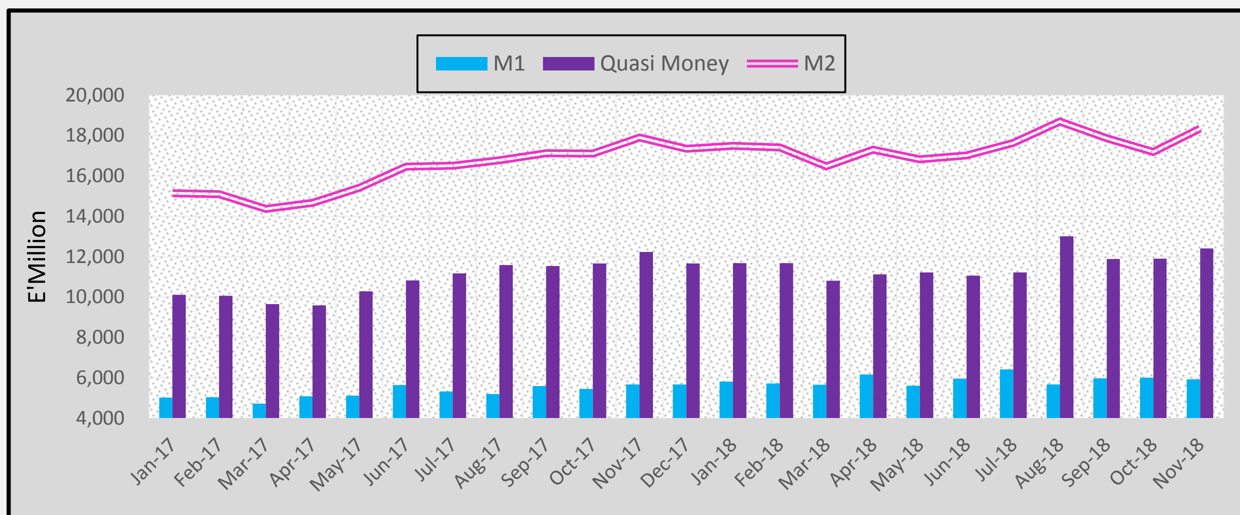
Without possible mitigation plans, the country's complete reliance on rainfall for maize production has proven to be unsustainable and costly for households, government and industry. There is a need to replicate the drought resilient sugar cane growing sector system to maize production. That is promoting commercial maize farming, increased public investment in water harvesting and irrigation infrastructure for Emaswati's staple food. This would complement input subsidies to increase maize yield per hectare, decrease the probability of crop failure due to low rainfall and promote food security.

4. MONETARY DEVELOPMENTS

4.1 INTEREST RATES & MONEY SUPPLY

Monetary policy, as pursued by the CBE to ensure financial stability, was accommodative in 2018. The monetary policy stance was based on the considerations of global conditions and local headline inflation. An annual comparison of the discount rate from November 2018 shows that, the discount rate was decreased twice by 50 basis points to 6.75 percent from 7.25 percent in 2017 at the same period. The decline in the discount rate locally was by driven stable global conditions and a moderation of inflationary pressure domestically. Similarly, economic growth was stagnant during the review period, justifying a more accommodative monetary policy setting in order to stimulate demand. The prime lending rate followed a similar path set by the discount rate during the course of the year, also decelerating by 50 basis points in 2018, from 10.75 percent to 10.25 percent.

Figure 8: Money Supply (2017-2018)



Source: Central Bank of Eswatini

Money supply developments reflected an overall increase in broad money supply. An annual comparison for narrow money (M1) in 2018 showed that, M1 amounted to E5.93 billion in November 2018, a modest growth of 4.5 percent compared to the same period in 2017. The acceleration of M1 was mainly driven by transferable (demand) deposits, which were on the rise. This implied that the public held more liquidity as short-term deposits with banks for transactional and speculative purposes. Quasi money supply (which includes savings and time deposits) amounted to E12.42 billion at the end of November 2018, growing by 1.5 percent compared to the same period in 2017. The growth in quasi money was supported by acceleration of time deposits. Broad money (M2) amounted to E 18.34 billion at the end

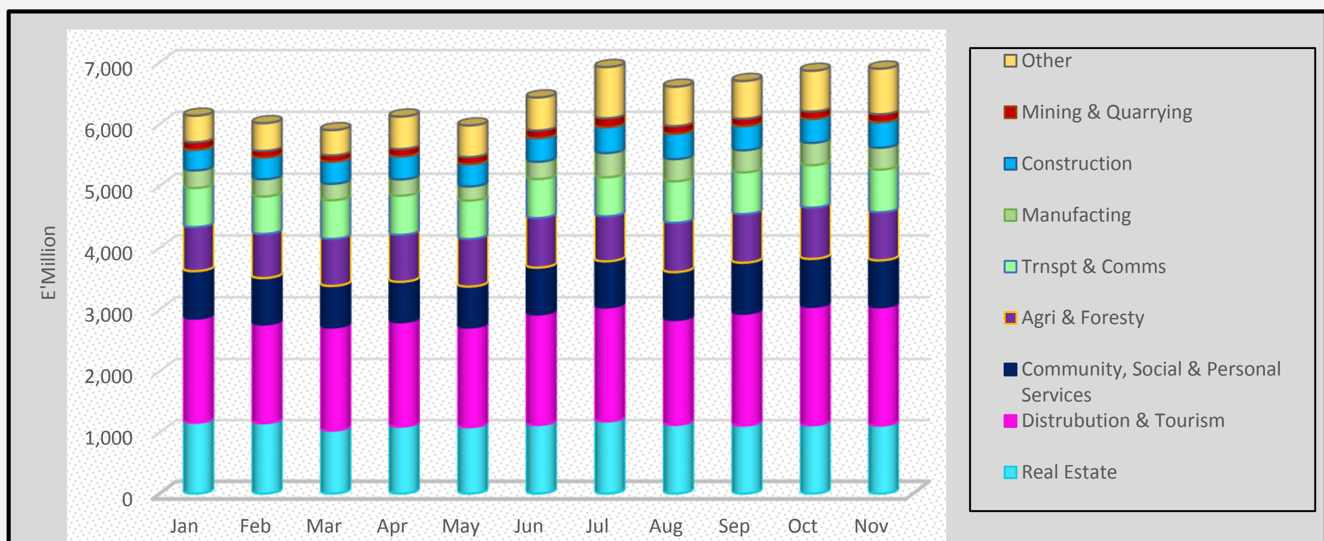
of November 2018, showing a moderate growth of 2.4 percent compared to the same period in 2017, in line with component of both narrow money and quasi money supply.

A 12-month analysis of the money supply trends shows that money supply has been relatively flat all year long with a slight deviation in August where broad money M2 accelerated by 6.0 percent driven by a 15.9 percent increase in quasi money during the period. On the contrary, narrow money supply decelerated during the same period by 11.4 percent compared to the previous month. Going forward, the rate of money supply growth will depend largely on the developments affecting monetary policy settings and the growth of credit extension.

4.2 CREDIT EXTENSION

Total credit extension was recorded at E14.72 billion in November 2018, portraying an 11.0 percent robust annual growth compared to the same period in 2017. This could be partly due to the accommodative monetary policy, which has sustained lending activity, despite the heightened risks in the economy. Credit extension growth is expected to be moderate in the medium term, given the anticipated slow economic growth. An accommodative discount rate setting could boost growth but this will largely depend on inflationary developments. The majority of the increase in lending in 2018 was

Figure 9: Credit Extension By Sector



Source: Central Bank of Eswatini

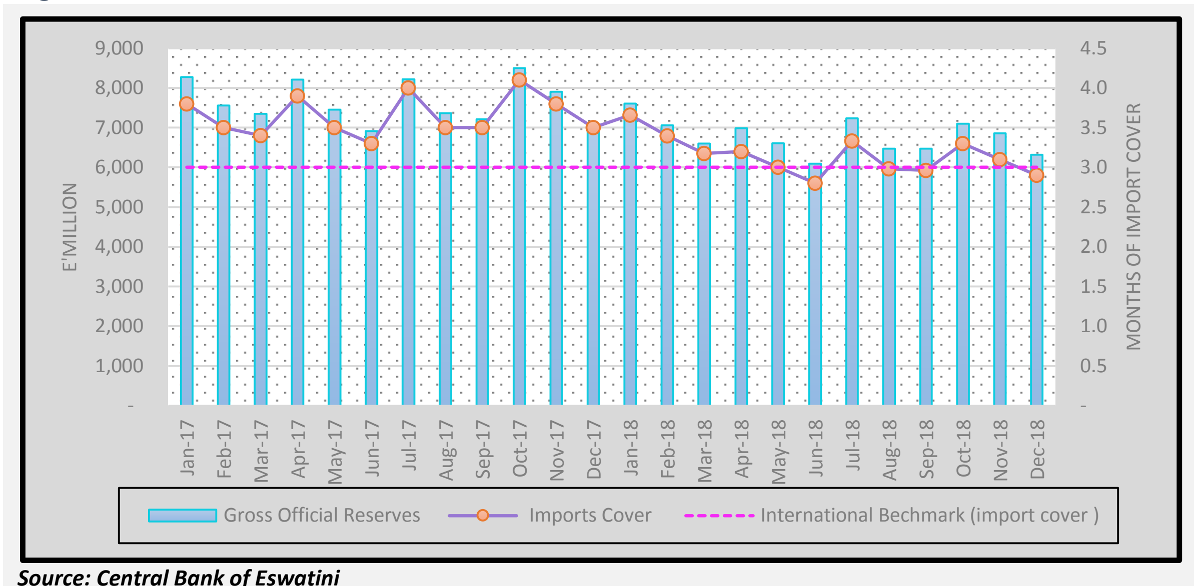
directed to private financial corporations. The growth in total credit extended to the economy was also partly driven by a modest 5.3 percent increase in credit to businesses during the same period. Growth in lending to businesses was primarily seen in particular sectors of the economy that have ongoing activity, namely mining, construction, tourism, and transport and communications. Credit extension to

other sectors of the business economy declined in the period. Credit to agriculture and forestry, in particular, declined massively by 31.2 percent. Additionally, credit to households contracted by 4.3 percent compared to the same period in 2017. Mortgage and motor vehicle loans saw the largest decline, whereas other personal unsecured loans increased in the period

4.3 GROSS OFFICIAL RESERVES

The Gross Official Reserves stock was reported to be at E6.32 billion as of December 2018, which was sufficient to cover 2.9 months of imports of goods and services. This was a 9.2 percent decline compared to the same period in 2017. This level of reserves was below the 3 months recommended international threshold but far below the SADC macroeconomic convergence target of 6 months import cover.

Figure 10: Gross Official Reserves



Source: Central Bank of Eswatini

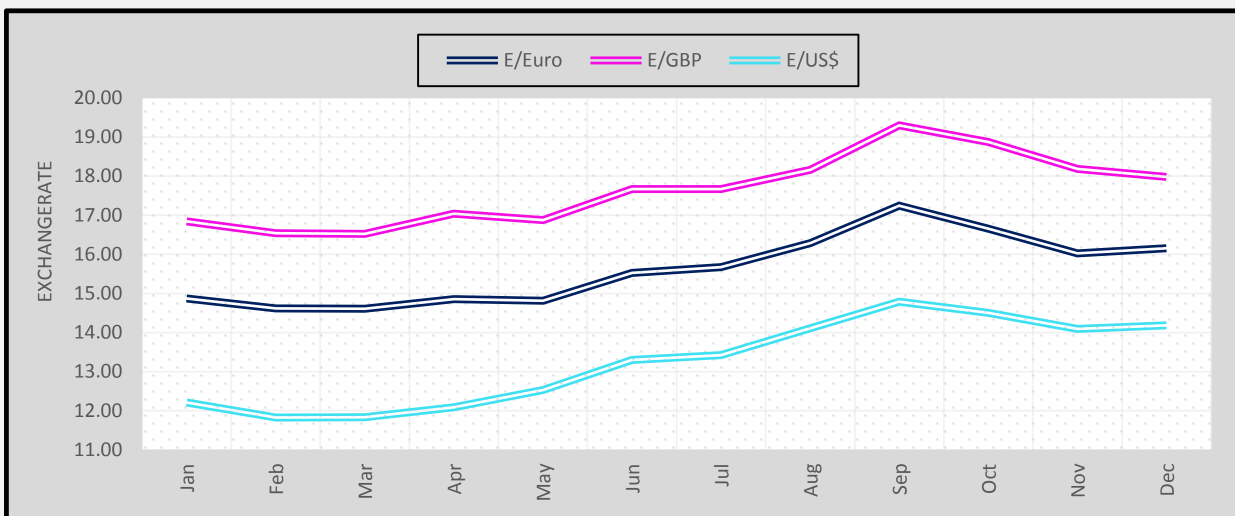
Reserves were on a downward trend in 2018, primarily due to rising fiscal challenges, which resulted in the rapid drawdown of reserves. Sufficient levels of reserves are important for the country to maintain the currency peg with the Rand. Furthermore, reserves are critical for buffering the country against shocks to SACU receipts and export earnings, in which case the country would have a limited stock of foreign currency to draw on in order to pay for imports. The government is committed to implementing fiscal consolidation and SACU receipts are projected to be slightly higher at E6.3 billion in FY 2019/2020 from E5.8 billion in FY 2018/2019. These developments could help bolster reserves going forward.

5. EXTERNAL DEVELOPMENTS

5.1 EXCHANGE RATES

In the calendar year 2018, the Lilangeni (SZL), which is pegged to the RSA Rand (ZAR), had mixed performances when compared against the three (3) major currencies, namely US Dollar (USD), Euro (EUR) and the British Pound (GBP). The performance of the Lilangeni is directly linked to developments in the SA economy. On an annual comparison against the US dollar, the Lilangeni strengthened slightly by 0.69 percent from an average of 13.33 SZL/USD in 2017 to an average of 13.24 SZL/USD in 2018. After experiencing a sharp appreciation at the end of 2017, the Lilangeni began depreciatng through most of 2018.In contrast, in the last 3 months of the 2018, the Lilangeni appreciated when compared to the US dollar, growing by 1.1 percent.

Figure 11: Lilangeni Exchange Rate To Major Currencies (2018)



Source: Central Bank of Eswatini

Against the Euro, the Lilangeni weakened moderately by 3.7 percent from 15.05 SZL/EUR in 2017 to 15.61 SZL/EUR in 2018. Furthermore, compared against the British pound the Lilangeni depreciated by a modest 2.7 percent from 17.18 SZL/GBP in 2017 to 17.64 SZL/GBP in 2018. However, the weakening of the Lilangeni subsided towards the last 3 months of the year as the SA economy had recovered from the recession and the SA Government announced an economic stimulus. On a quarter on quarter comparison, the Lilangeni strengthened modestly in Q4 by 0.8 percent and 0.2 percent against the Euro and the British pound, respectively. The modest appreciation of the local currency against the Euro and Pound was also largely driven by uncertainty surrounding Brexit, as well as other political developments in Europe. The depreciating exchange rate through the year provided much needed support to the

exporting sector, through the form of relatively more competitive international prices, assisting a significant recovery in export growth in the second half of the year[3].

A continued slight appreciation of the Lilangeni is expected in the medium-term, driven largely by international developments. In particular, projected growth in Europe has been revised downwards and Brexit uncertainty has only increased recently. Furthermore, the US economic growth is also expected to be more subdued in the medium term. Nevertheless, the strength of the Lilangeni will largely depend on the success of the RSA government structural reforms that are required to bolster investor confidence and the Rand. The strengthening rand will result in relatively cheaper import prices, moderating inflation, but will place strain on the Eswatini export sector.

5.2 MERCHANDISE TRADE

Eswatini remained net exporter of merchandise goods recording a trade surplus of E1.1billion in 2018 compared to that of 1.8 billion attained in 2017 (first 3 quarter comparison). This was driven largely by much slower export growth to regional markets, particularly SADC. However, a significant trade deficit with the SACU region was recorded (E537.9m) as imports exceeded exports due to increased importation of food imports and capital goods whilst recording a reduced demand for Eswatini exports by RSA due to that country's economic contraction. Furthermore, the growth of global trade decelerated in 2018 and global market prices were unfavorable for some of Eswatini's major exports (i.e. miscellaneous edibles and sugar in particular). The World Trade Organization (WTO) also revised downward the global trade outlook for 2019 to 3.9 percent from 4.4 percent in April 2018. There are also heightened negative risks to global trade, including the ongoing trade war. This may have spillover effects on trade for Eswatini. Nevertheless, a moderate recovery of RSA should boost export growth in 2019 and improve the trade balance.

Exports: Exports increased slightly by 2.5 percent compared to 4.1 percent growth in 2017 to E 24.62 billion. The reduced growth was mainly driven by unfavorable regional market prices and developments affecting mainly miscellaneous edibles. Miscellaneous edibles amounted to E11.7 billion in 2018 constituting 47.6 percent of total exports, thus continuing to be Eswatini's lead export commodity. However, miscellaneous edible exports declined by 3.1 percent in 2018 from a considerable growth of 6.9 percent in 2017.

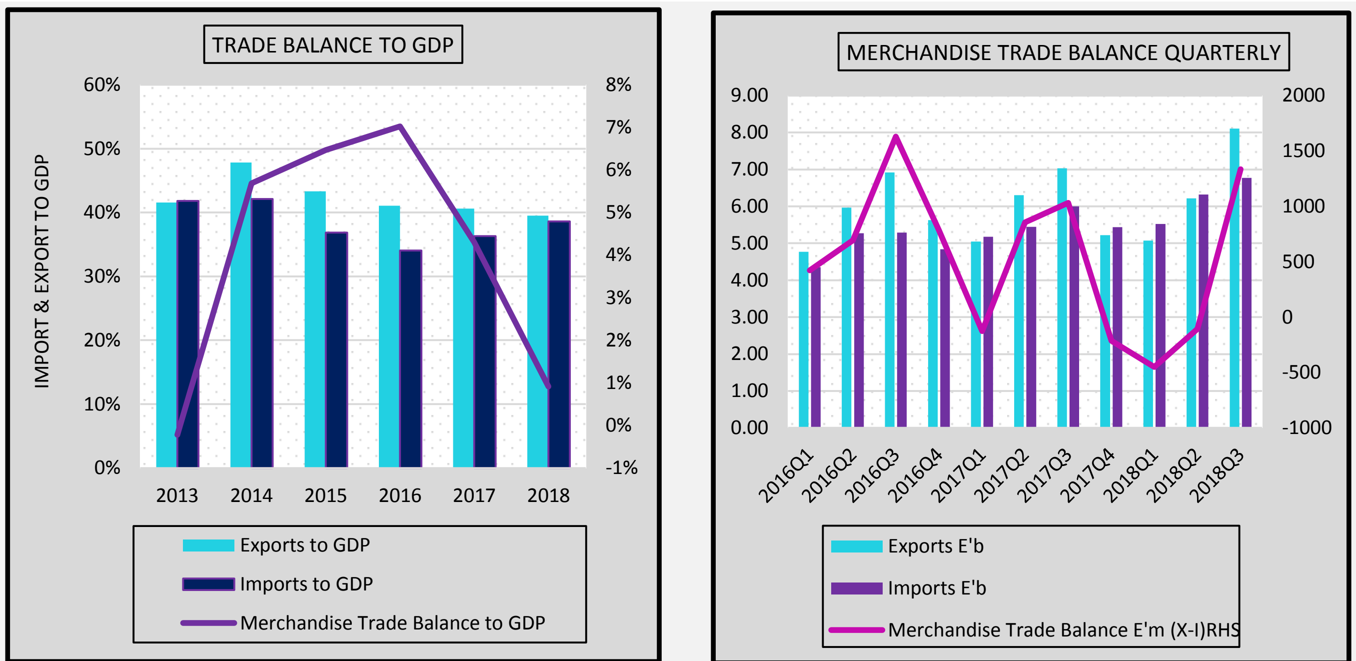
On a positive note, sugar export earnings were valued at E5.04 billion in 2018, with a growth of 6.8 percent and recovering from a contraction of 6.6 percent realized in 2017. With a contribution of 20.5

[3] See the '5.2. Merchandise Trade' Section

percent to total exports, sugar continues to be amongst major contributors to total exports. Of note, the increased sugar earnings were due to higher volumes exported as opposed to improved world prices. Global sugar prices in 2017 fell by 12.5 percent, falling further in 2018 by 21.9 percent thus making trade markets virtually unattractive. As a result, the sugar industry struggled in the first half of the year due to market constraints. However, on the supply side, increased volumes were harvested with improve yields due to favorable weather conditions hence, pushing more sales volumes in the market to balance off the unfavorable prices. Despite the high sales volumes, revenues from sugar exports were negatively affected by the strengthening of the Lilangeni against major trading partners' currency, falling world sugar prices and EU market liberalization.

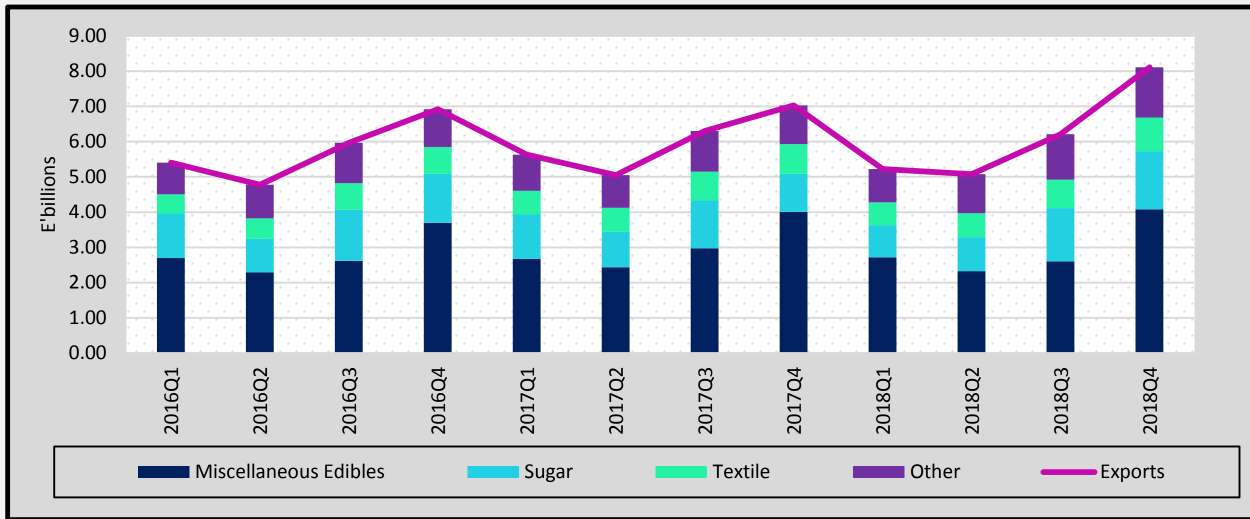
Textile exports, which constitute 12.6 percent of total exports, decelerated considerably in terms of growth, recording a 3.1 percent growth in 2018 subsequent to a 14.3 percent growth realized in 2017. This was attributed mainly to the closure of a major domestic producer due to internal constraints, and coupled with the lower demand in the RSA retail industry.

Figure 12: Merchandise Trade



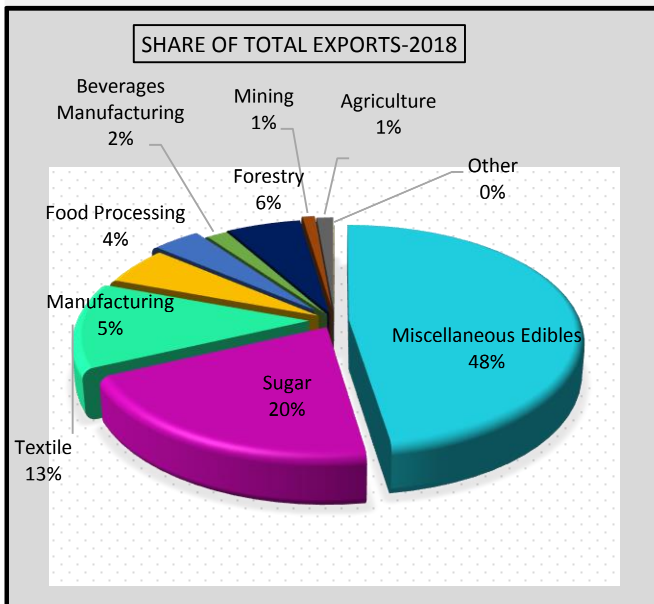
Source: Eswatini Revenue Authority

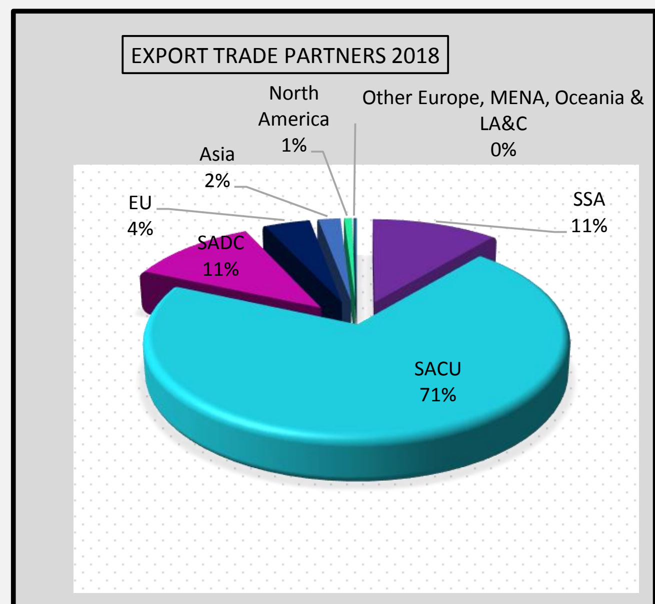
Figure 13: Eswatini Exports



Source: Eswatini Revenue Authority

Figure 14: Exports shares and trade partners



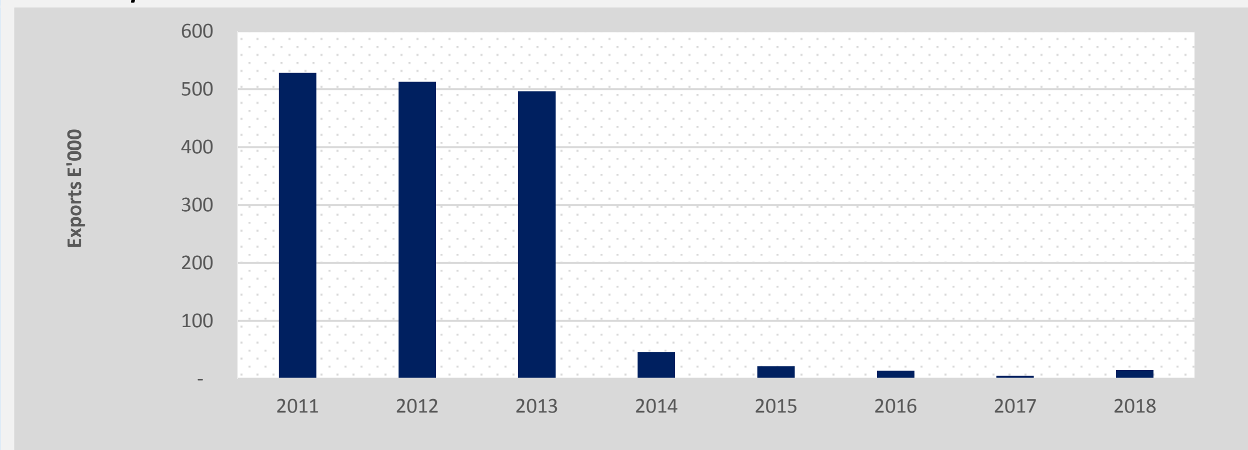


Source: Eswatini Revenue Authority

Information Box 2: Eswatini reinstated into AGOA

The Kingdom of Eswatini was reinstated into the African Growth & Opportunity Act (AGOA) trade program in 2018, following about three years of no duty and quota free access to the USA markets for the domestic textile industry. The country lost its beneficiary status in 2015 pending meeting certain benchmarks. Historically, the USA was a significant market to the country's textile sector through AGOA. The textile sector is labor intensive in nature and as at 2014 it had employed at least 16000 people. Prior to losing the AGOA market, roughly a quarter of textile exports were destined to the USA, averaging close to E0.5 billion a year. The domestic textile industry was hit hard following the loss of AGOA, as highlighted by the significant retrenchments and company relocations to other countries such as Lesotho. Other companies were compelled to diversify exports to other regional markets, the SACU region in particular.

The country's re-admission into AGOA in 2018 came as a relief, and at a right time given the uncertainty in the RSA economy as workers' unions increased pressure for a protectionist stance towards its domestic textile industry. Furthermore, the RSA market outlook is uncertain as growth is projected to be sluggish in the medium term. On the other hand, increasing industrial trade relation tensions in RSA could promote Eswatini's textile exports in the region despite RSA's protectionist measures. For example, the new RSA national minimum wage of R20 per hour could also result in the increase in the costs of production for the firms resulting some of them relocating their production to Eswatini. In light of these developments, the regained USA market is expected to bolster the textile market. Moreover, the AGOA agreement is not limited to textiles alone and provides Eswatini businesses with potential new opportunities.



Information Box 3: EFTA Ban on Eswatini Beef Exports Lifted

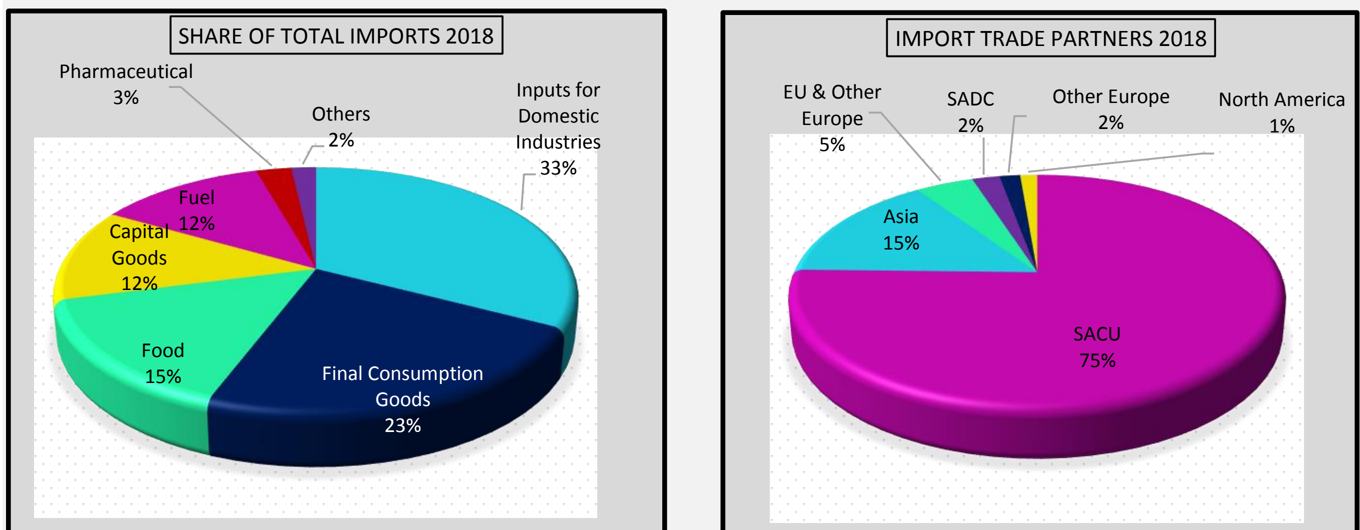
The European Free Trade Association (EFTA) banned Eswatini beef exports in September 2017 due to concern around potential Foot and Mouth disease. The ban was lifted in November 2018 after Eswatini passed all veterinary tests. The first container of 40 tonnes was shipped in January 2019. Unfortunately, production was not as plentiful as anticipated for 2018 as restocking from losses experienced during the 2015/16 drought are still taking place. In addition, another contributing factor to the considerably low tonnage was that the EFTA market is still being recaptured after the halt in trade.

A new deterrent to EFTA trade in 2019 is the threat around Foot and Mouth in RSA as announced in January 2019 and the subsequent ban from Eswatini of beef imports from RSA. This will have a negative impact on volumes of Eswatini beef exports to the EFTA market. Normally, Eswatini's beef imports from the RSA are directed towards local demand while local beef production is prioritized for exports to the EFTA market. However, the RSA import ban will result in a shortfall in supply for local beef demand. To cater for local demand, RSA beef will likely be substituted with local beef thereby reducing volumes available for export.

Export growth is expected to recover moderately in the short to medium term. Agro-processing exports will benefit from a continued recovery from the drought. Textile trade is also expected to benefit from Eswatini regaining the US AGOA market as well as new markets opened by other trade agreements. Downside risks would however include weakening global economic and weak trade outlook. High concentration in few markets and key products will make Eswatini vulnerable to external shocks, particularly those affecting demand in the SADC region. Further, the implications of Brexit and ongoing trade tensions also increase risks to Eswatini's trade.

Imports: The country's total value of imports in 2018 was E24.05 billion, signaling a continued strong growth of 12.0 percent compared to 12.3 percent in 2017. Import growth in some sectors was lower, such as purchases of final consumption goods of 8.2 percent growth in 2018 from 13.0 percent in 2017. Inputs for domestic industries which include those of agriculture grew by 10.5 percent growth in 2018 from 14.7 percent in 2017 whilst other imports declined by 1.1 percent in 2018 from a high growth of 27.9 percent in 2017.

Figure 15: Eswatini imports



Source: Eswatini Revenue Authority

Fuel and energy imports contributed the most to 2018 import growth, rising by 22.0 percent. This was driven primarily by inflationary pressures, including rising global oil prices and increased electricity tariffs, rather than an increase in volumes used. Food imports were the next largest contributor, growing by 15.0 percent during the review period. A large share of this was a donation of grains from the Government of India. The value of capital goods imports grew by 18.2 percent in 2018 compared to 11.1 percent in 2017 indicating that, despite the deceleration in exports growth and the sluggish economic

environment, companies are still investing. On the contrary, this could also indicate that the cost of capital goods increased during the period.

Eswatini continues to be heavily reliant on the SACU region, mainly RSA, with over 75 percent of imports being sourced from the region. Outside of the SACU region, an increasing amount of imports are sourced from Asia (i.e. China, India and Japan in particular), whilst a smaller proportions of imports are sourced from Europe, followed by SADC and North America.

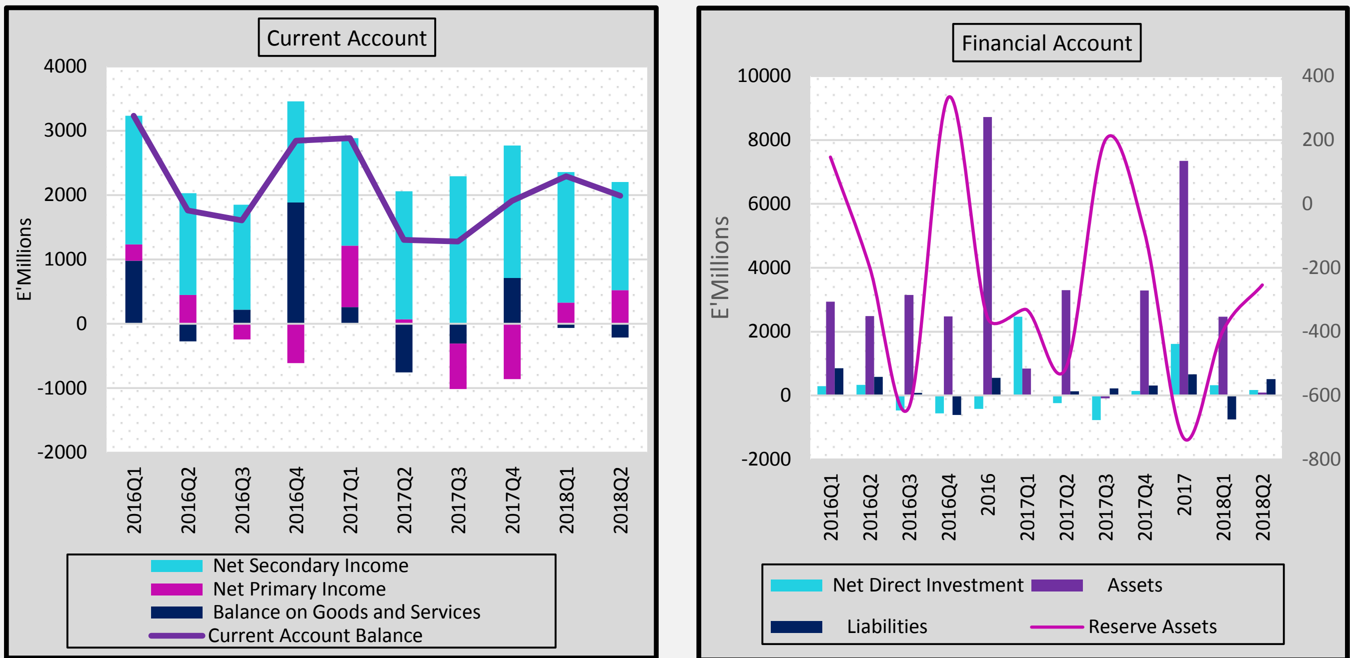
In the short to medium term, imports are expected to rise moderately due to increased demand for final consumption goods such as, furniture and fittings for major construction projects. Food imports, however, will most likely decline slightly with anticipated improved local production levels benefiting from improved weather conditions. On the other hand, import growth is expected to be moderate with reduced consumption levels due to depressed disposable income growth.

5.3 BALANCE OF PAYMENTS

A country's balance of payments is its record of all economic transactions between the residents of the country and the rest of the world in a particular period. It informs whether a country saves enough to pay for its imports it also reveals whether the country produces enough economic output to pay for its growth. It has three components; the current account, the financial account, and the capital account. The current account measures international trade, net income on investments, and direct payments. The financial account describes the change in international ownership of assets whilst the capital account includes any other financial transactions that do not affect the nation's income, production, or savings.

Preliminary data showed that in 2017, the current account recorded a surplus of E7.39 billion, down from a surplus of E8.020 billion in 2016. The balance in the current account was explained by a narrow trade balance and a reduction in the net receipts posted in the secondary income account. The balance on goods and services has been on a downward trend in the period under review, with a peak in 2016 Q4 at E1.88 billion and 2017 Q2 recording a trade balance deficit of E754 million. The services trade balance in particular is persistently in deficit and this deficit has been deepening. This can be attributed to a rise in sourcing expertise from other countries, particularly for industries such as construction and health. This is a particular concern if the is available in Eswatini but is being sourced outside the country.

Figure 16:Balance of payments



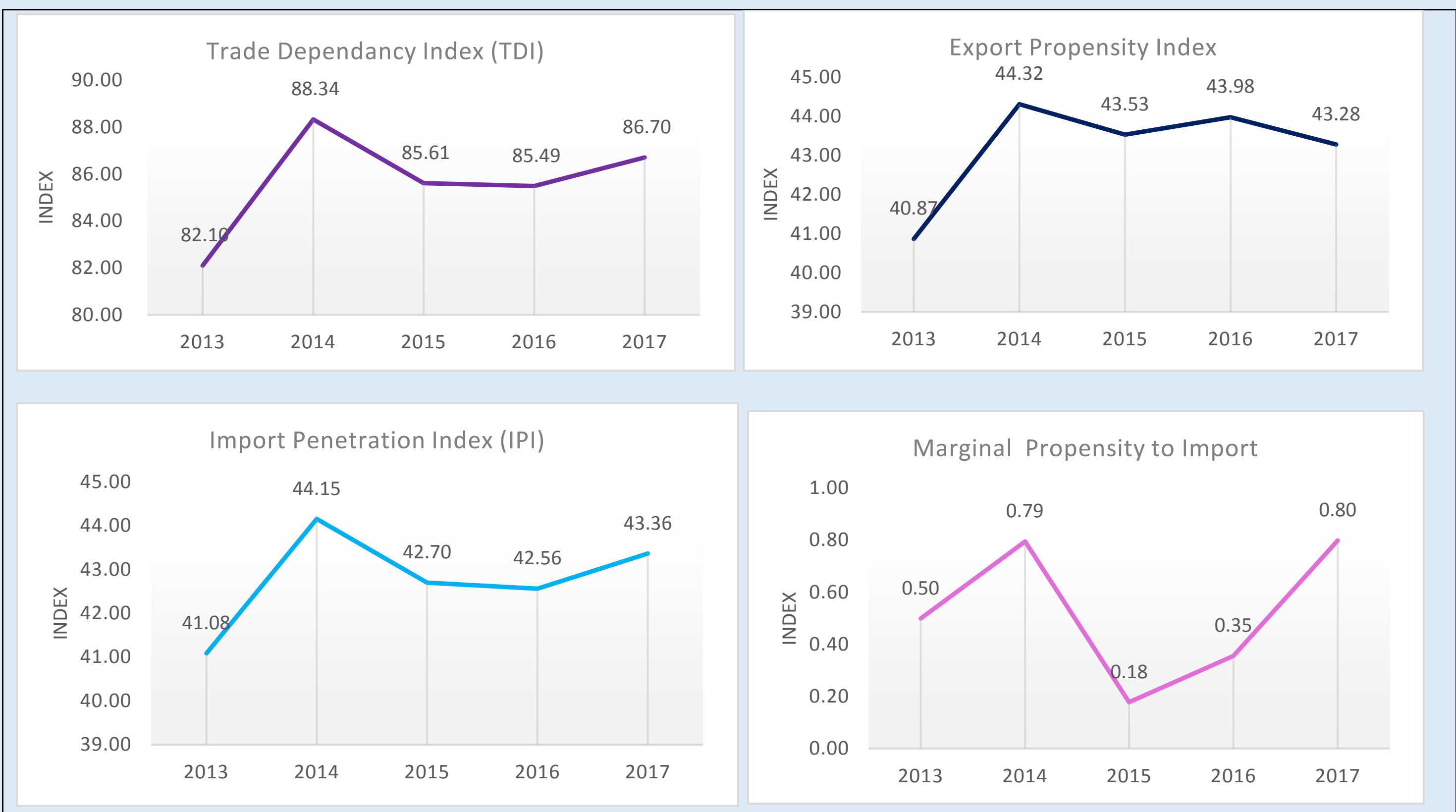
Source: Central Bank of Eswatini

Trade balance deficits was observed particularly in the first and second quarters of 2018, which can be attributed to the lowered demand for Eswatini's exports mainly by her major trade partner, SA, leaving the country vulnerable. On the other hand, the country's demand for imports remained on a steady increase, hence the deficit. Given the recovery of SA, the trade balance is expected to return to surpluses, although decreased global trade poses risks to this forecast. The impact that SA's technical recession had on Eswatini highlights a need to not only diversify export products but also trading partners. Decreased exports are of major concern for the country; as exports are a major driver of many of our industries and a decrease in exports present a detrimental effect on foreign currency reserves that are vital for importation, as well as keeping the Lilangeni pegged to the Rand.

Net Primary Income has been on the downward trend, signaling that income has decreased locally owned foreign assets and businesses. Similarly, there is increased income sent out of the country related to local assets and businesses owned by foreign counterparts. On the other hand, the country's current account balance overall is consistently in surplus due to secondary income and, in particular, SACU revenues. The Net Secondary Income shows some volatility as it consists of remittances as well as SACU revenues. They reflected a decline since Q3 2017, although improvements were seen in Q4 of 2018. SACU revenues are expected to be higher in 2019/20, which will drive net secondary income and the current account balance into higher surpluses.

In terms of the financial account, net direct investment reflected a decline in the period under review. There has been a sharp decline in foreign direct investment (FDI) inflows, with disinvestment even occurring in recent quarters since 2016. At the same time, local ownership of foreign assets has been rising in recent quarters, meaning that more local money has gone into direct investments overseas. This pattern is even more visible and consistent with other forms of investments (stocks, debt, etc.) with much more local money being invested overseas than what comes into the country. Reserve Assets are greatly dependent on SACU receipts, hence the volatility in this line.

Information Box 3: Eswatini Trade Analysis from 2013 - 2017



These four trade indicators provide information on the significance on international trade relative to the overall economy. They were computed using trade data from the Central Bank of Eswatini (CBE) B.O.P unit which provided data on total exports and imports comprising of both merchandise and service international trade. Gross Domestic Product (GDP) data was obtained from the Central Statistics Office (CSO) in nominal values.

Trade Dependence Index

The trade dependence index (TDI) also known as the openness index is one of the widely used trade statistic globally. It measures the importance of international trade to the overall economy (Gross Domestic Product). It gives an indication to the degree to which the economy is open to trade. A high TDI index is often interpreted as indicating a more open economy, displaying the influence of trade on domestic activities. Figure above portrays a five (5) year trend of the trade dependence index on the Eswatini economy. From the trend, we can infer that openness to trade of the Eswatini economy has been volatile over the years with the trade dependence index moving from 82.1 in the year 2013 to 86.7 in 2017. This depicts that the influence of trade on domestic activities has been volatile in recent. The reason for the unsteady movement of openness to trade can be attributed to the lack of trade diversification by the country and reliance on the same trading partners. These has further resulted in spillover effects for the economy due to trade shocks when the trading partners are experiencing economic challenges.

Import Penetration Index

The import penetration rate portrays to what extent does domestic demand (the difference between GDP and net exports) is satisfied by imports. It ranges from 0 (with no imports) to 100 percent when all domestic demand is satisfied by imports only (no domestic production and no exports).

Figure 1 above portrays a five (5) year trend of the import penetration index on the Eswatini economy. From the trend, we can determine that reliance on imports to satisfy domestic demand has been volatile in the recent past for Eswatini, with the import aggregates only accounting for 43.36 percent of aggregate demand in 2017. While the remaining 56.64 percent was satisfied by domestic production. The increase in import penetration between 2016 and 2017 can be attributed the El Nino drought which increase food imports to meet the domestic demands for food.

Export Propensity Index

This indicator shows the overall degree of reliance of domestic producers on foreign markets. It is expressed as a percentage and it ranges from 0 (with no exports) to 100 (with all domestic production exported).

Figure 1 above portrays a 5-year historic trend of the export propensity index on the Eswatini economy. From the trend, we can determine that the reliance of domestic producers on foreign markets has been relatively consistent, with domestic producers only selling 43.28 percent of their production to foreign markets in 2017, whilst the remaining 56.72 percent is sold to the domestic markets. The stagnation of exports can be attributed to strong global competition with other countries producing similar products efficiently at relatively lower cost compared to Eswatini and the volatility of international market prices as well as the low productivity by domestic producers due to low technological adaptation.

Marginal Propensity to Import

The marginal propensity to import (MPM) is a measure of the extent to which imports are induced by a change in income. It is the amount imports increase or decrease with each unit rise or decline in disposable income. The MPM ranges between 0 (with no part of extra GDP spent on additional imports) to 1 (when the whole extra GDP is spent on imports).

Figure 1, shows that the marginal propensity to import for Eswatini has been highly volatile over the past 5 years from 2013 to 2018. In 2017, the MPM was 0.78 indicating that for every One (1) Lilangeni of extra income in the Eswatini economy 80 cents was spent on imports in 2017. This portrays the degree to which imports are subject to change in income or production in Eswatini. The large propensity to import in 2017 was a direct effect of the El Nino drought phenomenon, which affected the country in 2016 thus causing the country to import in order to meet its domestic demand.

6. FISCAL DEVELOPMENTS

According to the Minister of Finance's March 2018 Budget Speech; the fiscal framework's focus was on fiscal consolidation and tax reforms that would create fiscal space for both investment and social spending. This required a combination of tax, expenditure and structural reforms to be implemented in the medium term to address these fiscal vulnerabilities acquired overtime. Key policy pronouncements in 2018/19 were the no salary adjustment, hiring freeze across sectors of government, reduced recurrent spending, slowing capital expenditure and the clearing of arrears.

Table 2: Selected Fiscal Indicators as a Percent of GDP4

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	Act.	Act.	Est.	Proj.	Proj.	Proj.
Total Revenue	**24.2**	**27.1**	**25.2**	**26.1**	**25.6**	**25.1**
Domestic Tax Revenue	14.1	14.7	15.3	16.1	16.1	16.1
SACU Revenue	9.3	11.9	9.3	9.5	8.9	8.4
Total Recurrent Expenditure	26.3	26.8	27.5	26.9	26.3	25.9
Of which wages & salaries	13.8	13.5	13.6	13.0	12.5	12.0
Capital Expenditure	6.9	6.9	5.2	6.0	5.3	5.1
of which Rural Development Fund	0.2	0.2	0.2	0.2	0.2	0.2
Gross Operating deficit(-)/Surplus (+)	-1.2	1.2	-1.5	0.0	-0.1	-0.2
Fiscal deficit(-)/Surplus (+)	-8.4	-5.7	-6.7	-6.0	-5.4	-5.3
Financing Gap (+)	2.2	-0.2	4.1	4.3	4.3	4.0
Total Public Debt (Stock)	19.7	22.0	23.3	25.0	26.0	27.1

Source: Ministry of Finance

6.1 REVENUES

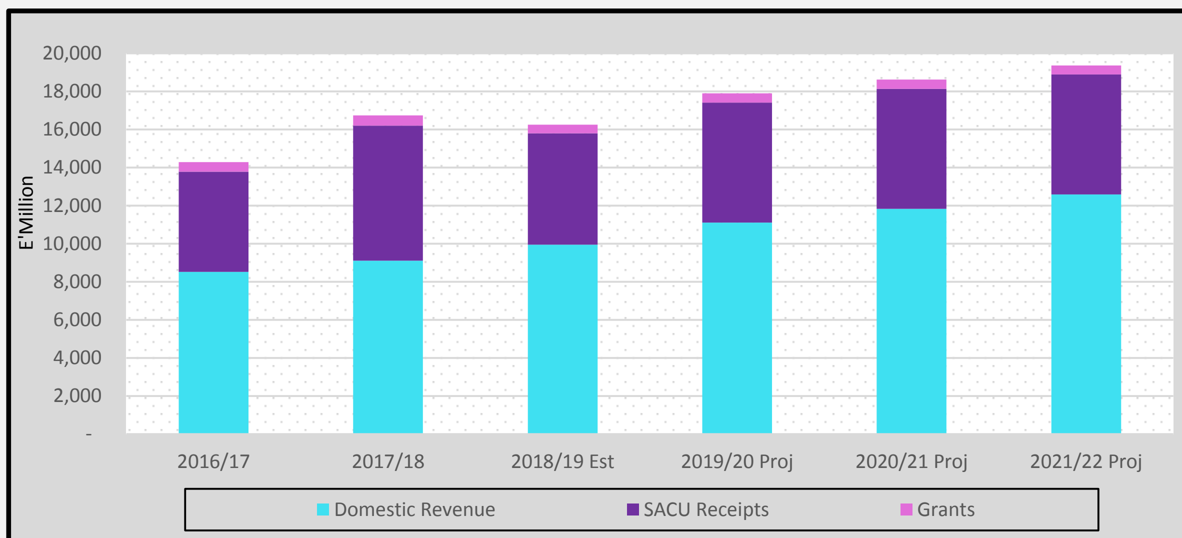
Tax and proposed government revenue reforms initiated in the period for budget financing contained in the Public Finance Bill 2018 were; VAT on electricity, taxes on alcohol and tobacco, review of user fees of government services, fuel tax, levy on extra-SACU imported motor vehicles, bank levy and the increase of VAT from 14 percent to 15 percent. However, most of the proposals in public finance bills presented to the 10th Parliament aimed at raising domestic revenue and reducing reliance on volatile SACU receipts were not approved. Only the tax levy increase by 0.20 cents and the increase of VAT from 14 percent to 15 percent were successfully implemented. Consequently, the Medium-term Fiscal Framework (MTFF)

[4] This medium-term outlook outlines the case in which no policy changes are made to the baseline scenario. The government's stance in the medium term is to bring fiscal credibility by eliminating financing gap and clearing all arrears. At time of publishing this document, government was still in the process of budgeting for 2019/20 and is committed to eliminating any financing gap. Nevertheless, the analysis below highlights the need for this.

2018/19 revenue estimates were revised downward, total revenue and grants estimates were revised to E16.2 billion, down from E16.7 billion announced in the March 2018 budget speech.

In 2018/19, total revenue is also expected to be down by 3 percent when compared to the E16.7 billion collected in 2017/18. The contraction is mainly explained by lower SACU receipts in the period, which account for over 35 percent of the total resource envelope. SACU receipts declined by 18 percent to E5.8 billion in 2018/19 compared E7.1 billion received in the 2017/18 fiscal year. Income tax revenue collection, the largest source of domestic revenue accounting for only 8 percent of GDP in the period, by the end of 2018/19 are estimated to amount to E5.2 billion from E4.9 billion collected in the previous period. This is, however, a deceleration in the rate of growth of tax revenue collected in the period at 6 percent in 2018/19 compared to 9 percent in 2017/18. This was explained by the deceleration in growth of personal income tax revenue to 8 percent down from 14 percent in 2017/18. Corporate income tax revenue collected rebounded from a decline of 8 percent in 2017/18 to grow by 3 percent in the 2018/19.

Figure 17: Government Revenue FY 2016/17 - 2021/22



Source: Ministry of Finance

Taxes on goods and services revenue is estimated to grow significantly by 17 percent compared to growth of 4.7 percent in 2017/18. This significant increase in VAT revenue takes into account the adjustment in the standard rate from 14 percent to 15 percent that was successfully implemented in August 2018 to align it with the increase to 15 percent by SA. Fuel tax revenue by the end of 2018/19 is estimated to amount to E1.02 billion from E1.01 billion; however, this is a deceleration in growth, despite an increase in fuel tax from E2.80 to E3.00 in 2018/19. Project grants in 2018/19 are estimated to decline by 15 percent to E455 million from E536 million received in 2017/18.

In the medium-term, with no policy changes total revenue and grants in 2019/20 is forecast to increase by 10 percent to E17.9 billion. This increase is mainly explained by higher SACU receipts at E6.3 billion coupled with higher VAT collections forecast at E4.8 billion compared to E4.2 billion collected in 2018/19. However, it is anticipated that finance bill that were unsuccessful in 2018/19 will be implemented in 2019/21 in order to increase domestic revenue and reduce reliance on SACU receipts. For the period 2020/21 to 2021/22, total revenue and grants with no new policy changes are forecasted to grow an average of 4 percent annual.

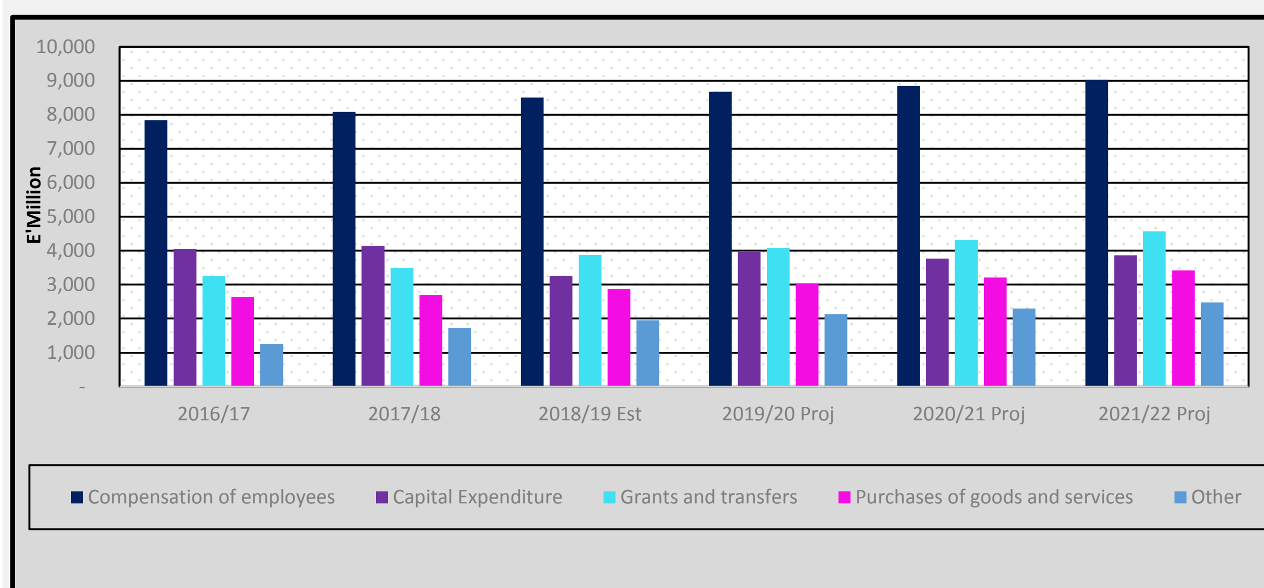
6.2 EXPENDITURES

Total government expenditure in 2018/19 is estimated to grow by 1.5 percent to E20.5 billion from E20.2 billion in 2017/18. These expenditure estimates for the period 2018/19 are lower compared the initial total budget of E21.6 billion announced in the March 2018 budget speech. This is mainly attributed to current fiscal challenges that require prudent fiscal measures to be effected in the period to control expenditure and manage cash flow, particularly after some planned revenue generation measures to eliminate the fiscal deficit were not successfully implemented.

Total recurrent expenditure for the period 2018/19 is estimated at E17.2 billion (28 percent of GDP), a 7 percent increase from E16 billion actual expenditure recorded in 2017/18. This increase in expenditure is attributed higher expenditure on compensation of employees, grants and transfers, goods and services. Compensation of employees, which accounts for 49 percent of total government recurrent expenditure, increased by 5 percent to E8.5 billion in 2018/19 from E8.1 billion in 2017/18. This increase, despite government's hiring freeze and no cost of living adjustment policy, was mainly attributed to a once off payment of end of term benefits of politicians, short-term contract workers and an annual notch increases for civil servants and allowances for acting and overtime. Grants and transfers (23 percent of recurrent expenditure) is estimated to increase by 11 percent to E3.9 billion in 2018/19 from E3.5 billion in 2017/18. Expenditure on Goods and services is estimated to increase by 6 percent to E2.9 billion from E2.7 billion in 2017/18, the equivalent of 5 percent of GDP. A moderate increase in recurrent expenditure in the medium-term, with no new policy interventions, is expected be driven by notch increases in compensation of employees and goods and services expenditure in line with inflation trends.

A capital expenditure budget of E5.7 billion (9 percent of GDP) was announced in the budget speech, preliminary expenditure estimates indicate a downward revision to E3.2 billion (5 percent of GDP). This 2018/19 preliminary capital expenditure estimate of E3.2 billion is a 21 percent decline from E4.1 billion actual expenditure recorded in 2017/18. This was as a result of a government budget policy stance to reduce the capital budget by E560 million and to shift new government financed projects to the next fiscal year, while government projects at an advanced stage of implementation and those with external financing were prioritized in the period under review. Capital expenditure implementation rate in 2018/19 was 71 percent, compared to 54 percent in 2017/18. The higher implementation is mainly explained by higher implementation of externally financed projects in the period.

Figure 18: Government Expenditures FY 2016/17 - 2021/22



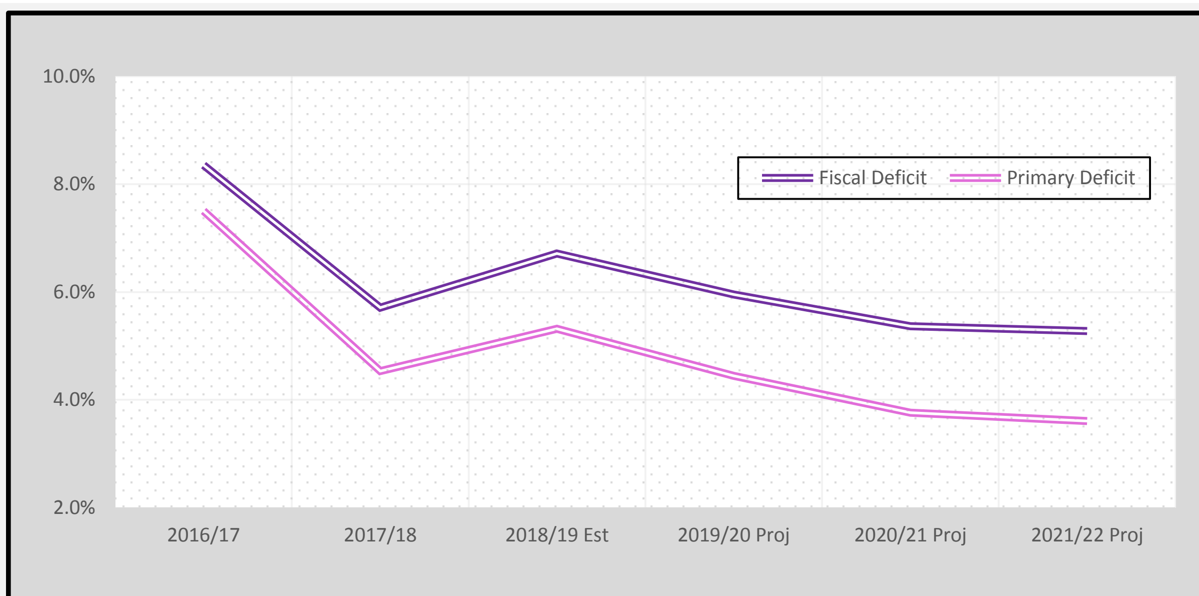
Source: Ministry of Finance

External financing for capital projects in the period under review increased from E1.6 billion in 2017/18 to E1.7 billion in 2018/19, accounting for 51 percent of total capital expenditure financing. External financing is in the form of loans amounting to E1.2 billion and a balance of E455 million constituting of grants. Domestic financing of capital expenditure is mainly channeled towards government's capital program (E1.6 billion) and rural development programs in the four regions of the country (E117 million) through the Regional Development Fund under the Micro Projects Unit. The RDF estimated expenditure for 2018/19 is equivalent to 0.2 percent of GDP and is expected to remain constant in the medium term.

6.3 FISCAL BALANCES

The primary deficit in 2018/19 is estimated at E3.3 billion, up from an actual of E2.7 billion in 2017/18. The deficit is largely attributed to government's public investment program estimated at E3.2 billion in 2018/19. Interest payments on debt (external and domestic) in 2018/19 in line with rising capex financing needs in the period increased to E876 million, up from E703 million in 2017/18. Consequently, the fiscal deficit in 2018/19 is estimated to increase to E4.2 billion (6.7 percent of GDP) compared to E3.4 billion (6.0 percent of GDP) in 2017/18. It is estimated that only E1.4 billion can be raised from the domestic market, with no immediate sources of funding or downward revision of expenditure consequently leaving a funding gap of E2.6 billion (4 percent of GDP). This is a potential risk to the economy as the execution of this unfinanced budget would lead to an increase in the accumulation of arrears, despite planned efforts to reduce and settle arrears in the medium-term. If there are no policy changes in the medium-term to increase revenue or revise expenditure downward, the fiscal deficit in the medium-term 2019/20-2021/22 is estimated to remain at an average of 6 percent of GDP.

Figure 19: Primary and Fiscal Balance as percent of GDP



Source: Ministry of Finance

Total public debt stock is estimated to reach E14.6 billion (23 percent of GDP) in 2018/19 after an increase in borrowing in the period that raised public debt levels up from E13.1 billion in 2017/18. Total domestic debt, at E8.4 billion, consists mainly of longer-term bonds (70 percent), treasury bills (28 percent) and promissory notes (1 percent). Interest payments in 2018/19 are estimated to amount to E703 million, up from E483 million in 2017/18. The estimated increase in interest payment is expected to be mainly driven by domestic interest payments, which are projected to increase by 50 percent in

2018/19, while external debt interest payment are expected to increase by 20 percent. Total public debt is forecast to accumulate to E16.7 billion in 2019/20 (25 percent of GDP) driven by an increase in public investment. The stock of external public debt is forecast to continue to record double-digit growth of 19 percent in 2019 to amount to E7.3 billion. Eswatini's major external financiers of the capital program in 2019/18 were the African Development Bank (AfDB), International Fund for Agricultural Development (IFAD), the World Bank, the Kuwait Fund and the Arab Bank of Economic Development in Africa (BADEA). Domestic public stock is forecast to grow by 11 percent to E9.4 billion from E8.4 billion in 2018/19.

7. CONCLUSION

Global economic growth is expected to moderate in the medium term, after reaching a peak in 2017. The weak economic growth developments in advanced economies, rising pressures from trade tensions amongst major economies, volatile commodity prices, political uncertainty and the weakening sentiments in the financial markets are some of the factors contributing to the lackluster growth outlook. On the contrary, growth in the Sub-Saharan region is convalescing, although varying across countries, with improving economic fundamentals and low inflationary pressures. Global growth in the medium term is however uncertain and engulfed by a number of downside risks, including the escalating trade tensions, normalization of interest rates in advanced economies, uncertainty in global commodity prices and a rising number of debt-distressed countries.

Coming closer to home, growth remained weak in the RSA economy, estimated at 0.8 percent in 2018, as the country grappled with the post-drought effects on the agricultural output and deteriorating mining activity. The economy experienced a recession in the first half of the year, distressing performance of small neighboring economies including Eswatini. The medium term outlook for the economy is dependent on the successful implementation of structural reforms, including management of State Owned Entities (SOEs) and improvements in electricity supply.

It was a difficult year for domestic economy. At one end, the economy was dealing with weak external demand due to slowing activity in the country's major trading partners, whilst struggling with fiscal challenges on the other end. The fiscal situation reinforced the need for fiscal consolidation, resulting in cuts to both recurrent and capital expenditure as well as increases in some tax rates in FY 2018/19. Nonetheless, the supply-side sectors, in particular agriculture and agro-processing sectors, performed well, benefiting from favourable weather conditions whilst recovering from the effects of the drought. The outlook is uncertain given high exposure to external shocks and potential headwinds with continued dependence on SACU. Positive risks, however, include the optimistic confidence on the new government and the anticipated implementation of a recovery strategy and reform packages, including clearing of arrears, thus boosting investor confidence.

Government's direction in the medium should entail acceleration of effort towards achieving Vision 2022. As such, successful implementation of integrated policies and measures will be vital to address a number of development bottlenecks and emerging challenges. Most importantly is the government's commitment to the clearing of domestic arrears with suppliers in order to ensure that businesses are not stifled and to reduce any vulnerabilities within the financial sector due to high NPLs. Moreover, policies that will broaden and diversify the export base are to be implemented to minimize greater

exposure to external shocks, particularly those affecting South Africa. The country needs to consider incentives for investors, including expediting the roll out of activities such the Special Economic Zones (SEZs), and to improve on the ease of doing business, reduction of energy prices and other investor friendly strategies.

APPENDIX:

1. GDP by Economic Activity at constant (2011) prices (E million)

Description	2016 (e)	2017 (e)	2018 (f)	2019 (f)	2020 (f)	2021 (f)
Agriculture and forestry	3,598	3,440	3,647	3,784	4,045	4,156
Growing of crops	882	1,086	1,297	1,292	1,385	1,452
Growing of crops: Individual tenure farms	816	921	1,122	1,112	1,133	1,162
Growing of crops: Swazi National Land	66	166	176	180	252	290
Animal production	2,072	1,748	1,754	1,886	2,016	2,039
Support activities to agriculture	144	157	166	172	210	228
Forestry and Logging	501	448	430	434	435	436
Mining and quarrying	59	63	62	65	71	75
Primary sector	**3,656**	**3,502**	**3,710**	**3,849**	**4,116**	**4,230**
Manufacturing	12,458	13,130	13,147	13,585	14,042	14,368
Electricity, gas, steam and air conditioning supply	190	111	129	144	190	210
Water supply; sewerage, waste management	180	179	184	188	193	197
Construction	1,465	1,321	1,284	1,159	1,068	1,037
Secondary sector	**14,293**	**14,740**	**14,744**	**15,078**	**15,493**	**15,813**
Wholesale and retail trade; repair of motor vehicles and	5,936	5,734	5,796	5,647	5,491	5,337
Transportation and storage	993	1,032	1,011	1,010	1,012	1,017
Accommodation and food service activities	314	330	302	300	300	304
Information and communication	1,334	1,395	1,415	1,446	1,487	1,542
Financial and insurance activities	2,172	2,346	2,340	2,380	2,459	2,561
Financial service activities, except insurance	1,563	1,746	1,735	1,763	1,827	1,908
Insurance and pension funding	469	447	449	459	470	488
Activities auxiliary to financial services	139	153	156	158	162	165
Real estate activities	2,341	2,364	2,370	2,315	2,339	2,363
Real estate activities, market	1,325	1,336	1,330	1,263	1,275	1,288
Owner-occupied dwellings	1,016	1,028	1,040	1,052	1,064	1,075
Professional, administrative and support services	1,570	1,697	1,720	1,756	1,814	1,850
Public administration and defense; compulsory social	3,324	3,348	3,290	3,290	3,323	3,390
Education	2,320	2,406	2,436	2,457	2,494	2,526
Human health and social work activities	1,139	1,249	1,254	1,266	1,283	1,301
Arts, entertainment and recreation	139	133	135	138	139	139
Other service activities	128	123	124	126	127	128
Activities of households as employers; undifferentiated	89	91	92	93	94	95
Tertiary sector	**21,800**	**22,245**	**22,284**	**22,224**	**22,363**	**22,553**
Unspecified (FISIM)	-571	-594	-641	-612	-615	-628
Total: All industries	**39,179**	**39,894**	**40,097**	**40,537**	**41,357**	**41,968**
Taxes on products	2,023	2,080	2,138	2,157	2,108	2,129
GDP by economic activity	**41,202**	**41,974**	**42,236**	**42,694**	**43,466**	**44,097**

2. Contributions to GDP Growth

GDP by economic activity at constant 2011 prices (E million)				
Description	2018 (f)	2019 (f)	2020 (f)	2021 (f)
Agriculture and forestry	0.49%	0.32%	0.61%	0.25%
Mining and quarrying	0.00%	0.01%	0.01%	0.01%
Primary sector	0.49%	0.33%	0.62%	0.26%
Manufacturing	0.04%	1.04%	1.07%	0.75%
Electricity, gas, steam and air conditioning supply	0.04%	0.04%	0.11%	0.05%
Water supply; sewerage, waste management and remediation activities	0.01%	0.01%	0.01%	0.01%
Construction	-0.09%	-0.29%	-0.21%	-0.07%
Secondary sector	0.01%	0.79%	0.97%	0.74%
Wholesale and retail trade; repair of motor vehicles and motorcycles	0.15%	-0.35%	-0.37%	-0.36%
Transportation and storage	-0.05%	0.00%	0.00%	0.01%
Accommodation and food service activities	-0.07%	-0.01%	0.00%	0.01%
Information and communication	0.05%	0.07%	0.10%	0.12%
Financial and insurance activities	-0.03%	0.07%	0.15%	0.19%
Real estate activities	0.01%	-0.13%	0.06%	0.06%
Professional, administrative and support services	0.05%	0.09%	0.14%	0.08%
Public administration and defense; compulsory social security	-0.14%	0.00%	0.08%	0.15%
Education	0.07%	0.05%	0.09%	0.07%
Human health and social work activities	0.01%	0.03%	0.04%	0.04%
Arts, entertainment and recreation	0.01%	0.01%	0.00%	0.00%
Other service activities	0.00%	0.00%	0.00%	0.00%
Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use	0.00%	0.00%	0.00%	0.00%
Tertiary sector	0.09%	-0.14%	0.33%	0.44%
Unspecified (FISIM)	-0.11%	0.07%	0.00%	-0.03%
Total value added at basic prices	0.48%	1.04%	1.92%	1.40%
Taxes on products	0.14%	0.04%	-0.11%	0.05%
GDP at Constant 2011 Prices	0.62%	1.09%	1.81%	1.45%

Source: Macro-forecasting Team